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EDITORIAL

As We See It

The election campaign is on. Its nonsense is now heard on all sides. We shall have to suffer it until November, of course, but it may be hoped that, for once, the great rank and file of the voters will do a little thinking for themselves.

One of the early gatherings took place in the City of New York late last week, and gave several candidates an opportunity to show their wares. From the outgivings of that occasion we take the following from the speech of Senator Lehman as all too typical of the New Deal and the Fair Deal philosophers—if that is what they can be termed:

"Let us not deceive ourselves into thinking that our enemy is Soviet Russia alone. Allied with Soviet Russia and her cruel and imperialistic designs are powerful and insidious forces of poverty, ignorance and human misery.

"These are the forces which we must help to conquer if we would overcome the threat of communism. If we turn our backs on any one danger in order to preoccupy ourselves solely with another, we may find ourselves overwhelmed. If we yield ourselves to panic and give up our liberties, the liberties which have given us strength to check the Soviet designs in Europe and to meet them in Asia, we will have lost the war before we have fought a major battle."

Who Threatens Liberty?

Of course, it would be very simple, and, really, quite to the point to insist that the people who have really threatened our liberties and who are still bent upon destroying a large part of the American system are those who furthered the

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What's Ahead for The Bond Market?

By ALFRED J. CASAZZA*

Vice-President, Savings Bank Trust Co.

Mr. Casazza points out, in view of government's anti-inflation program, there will not be a decline in yields from bonds arising from lower interest rates. Advises savings banks to continue purchase of good mortgages which provide satisfactory return, along with government bonds. Sees likelihood of mutual savings banks increasing holdings of tax-exempt state and municipal bonds, in view of probable legislation imposing Federal levy on these institutions.

Generals spend their time, it is often said, planning how to win the last war.

There are people in civilian life who have a tendency to do the same sort of thing. No sooner did news of the war in Korea reach their ears than housewives rushed to hoard sugar, nylon stockings and pepper just because these items were in very short supply after Pearl Harbor. Business men similarly stocked up hurriedly on the raw materials that were scarce during World War II. Investors scrambled for stocks like the sugar issues, since these had advanced sharply in the last war.

Alfred J. Casazza

World War II brought higher prices and lower yields in the bond market. This wartime strength in bonds resulted from three forces. First, there was a severe contraction in new corporate and municipal financing and in mortgage borrowing, so that the supply of such investments was sharply reduced. Secondly, the demand for institutional investments expanded as inflation swelled national savings.

Continued on page 41

*An address by Mr. Casazza before Group V of the Savings Banks Association of State of New York, Brooklyn, N. Y., Sept. 20, 1950.

War, Taxes and Security Prices

By J. J. QUINN and G. M. HAAS

Economists maintain circumstances attending General War III would differ completely from previous wartime. Conclude early profitable phases would deteriorate under crushing tax burden and other anti-inflationary moves, entailing drastic reduction in country's living standards. Contend common stocks, in latter phases, are poor hedge against inflation; prefer bonds, particularly tax-exempts, as best medium for value preservation over intermediate term.

Background

On the eve of what may be the opening phase of the greatest general war in history, it is somewhat sobering to note that, because of basically changed conditions, few, if any, of the lessons learned in the two prior general wars will be of much help in planning and prosecuting the next one. At the same time and for the same reasons, the knowledge gained by investors in the earlier general conflicts is likely to prove of minimum value in the one to come. These fundamentally altered conditions need only be cited to demonstrate the point:

J. J. Quinn

Gilbert M. Haas

(1) The U. S. is riding the crest of the greatest boom on record with only 4.0% of the civilian labor force unemployed, contrasted with 1939 when Gross National Product was only a third of current output and unemployment 17.2% of the then civilian labor force.

(2) The commodity price level is 115% higher than in

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SEE YOU AT THE CONVENTION—We have reference, of course, to the Annual Convention of the National Security Traders Association which gets underway at Virginia Beach, Va., on September 26.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

General Motors Corp.—George W. Clemons, President, Securities Counsel, Inc., Jackson, Mich. (Page 2)

Missouri Pacific 5½% Convertible Bonds of 1949—Albert H. Deuble, Partner, Oppenheimer & Co., New York City. (Page 2)

Central Public Utility Corp. Income 5½s of 1952—Louis Lober, Partner, Lober Bros., New York City. (Page 37)

Canadian Pacific Railway Ordinary Shares—Charles S. Moore, Partner, D. T. Moore & Co., New York City. (Page 37)

GEORGE W. CLEMONS

President, Securities Counsel, Inc., Jackson, Mich.

(General Motors Corporation)

It is easy to understand why children may not care for giants. However, an investor can respect and appreciate the management genius and financial planning required to develop a corporation whose annual sales have reached the largest dollar volume of any business enterprise in history.


Geo. W. Clemons

General Motors Corporation, led these many years by Alfred P. Sloan, Jr., has always favored financial incentive for management, and I, as one stockholder, am grateful for this policy as I believe it is one of the most important reasons why the corporation is now a giant.

Perhaps there are some who still believe that the automobile is a luxury item for the rich. However, aside from the congested centers of a few large eastern cities it has become a necessity for well-rounded family life. As to history, I grant that General Motors cannot boast a 100-year or even a 50-year dividend record, but the dividend stream has flowed without interruption since 1917, one year after incorporation in Delaware.

We hear a great deal about inflation, and we realize that the dollar will buy one-half or less than it bought before the last war. But has the average investor fully measured the impact of this change on his common stock investments, particularly on stocks of companies manufacturing consumers goods? As consumers, we realize in a general way that a Chevrolet costs about twice as much as before World War II. Given a comparable automobile year, gross sales should double and on the same ratio of net to gross net earnings also should double. Furthermore, as a corporation like General Motors catches up with capital expenditures for postwar modernization and growth, one may expect a return to the prewar relationship of dividends to earnings.

Let us see how this works out in the case of General Motors. Omitting the change-over years, 1942 and 1946, and taking as prewar base years 1938 through 1941, we find that General Motors' annual sales averaged $1,669,000,000, while per share earnings and dividends averaged $3.75 and $3.12½, respectively. By comparison, we find the four postwar years, 1947 through 1950 (estimated), showing average annual sales above $5,200,000,000, and average per share earnings and dividends $12.25 and $6.25, respectively.

The wide margin between average earnings and dividends for the past four years raises the dividend potential for the future, and I believe that an average dividend expectancy of $6 per share is conservative, even if future automobile years revert to the prewar pattern as to volume, adjusted for population increase. Allowance is made also for volume and diversification improvement in the field of household appliances, railroad locomotives, diesel engines, etc.

I am talking in terms of peace, but if we move once again into an all-out war economy, where will the bureaucrats and military procurement officers turn for huge production of war materiel in a hurry? Yes, you are right, they will use the plants, tools, management brains and know-how of General Motors Corporation and other manufacturers in this industry.

It is most difficult to view the future with confidence, noting the shadow of war and threats of more war, continuing impairment of our money's value as the government proceeds down the inflation road, and recognizing that an atomic age is bound to bring sweeping changes in manufacturing, commerce and living.

The security that I like best for this uncertain future is the common stock of that industrial giant, General Motors Corporation, because in the final analysis I believe that the brain-power, manpower, and financial strength of this industrial empire offers more assurance that my capital will come safely through these changes than if it were invested in the promises of any government. I have a deep conviction that the skill of the men running the world's governments does not compare with that of the men charged with responsibility for the destiny of this giant corporation.

ALBERT H. DEUBLE

Partner, Oppenheimer & Co., Members of N. Y. S. E.

(Missouri Pacific 5½% Convertible Bonds of 1949)

Under existing conditions, no security should be recommended which does not offer at least a limited degree of protection against inflation. Other requirements should include full participation in the armament program and long-term possibilities of growth because of the natural development of the country. An ideal investment should also have a sheltered tax position. Missouri Pacific Railroad Co. convertible 5½% bonds, due May 1, 1949 appear to embody all of these features.


Albert H. Deuble

At present all indications point to a continuation of the creeping inflation from which we have suffered during the past ten years. Experience, however — even in postwar Germany with its drastic devaluation of the mark and heavy damages from bombardments — shows that stocks of strong companies offer one of the best methods of safeguarding wealth against loss from inflation.

Using the foregoing qualifications as a yardstick I consider the Missouri Pacific convertibles to offer an outstanding security value. The MOP, which has been in bankruptcy since March 1933, together with its fully controlled affiliates, The New Orleans, Texas & Mexico Railway and The International Great Northern RR., is one of the largest and most important railway systems west of the Mississippi. The system operates more than 10,000 miles of main track and serves important mining, manufacturing, lumbering, agricultural and commercial interests in 10 southwestern and midwestern states. Important truck and bus subsidiaries, refrigerator lines, coal and real estate interests are also owned.

The road operates in one of the most rapidly growing sections of the nation. Within a few years the trustees revised their estimated earnings figures upward for citrus traffic alone by $4,297,000 to $6,716,000. One of the most important long-term developments for the railway is the expansion of the chemical industry along the Gulf of Mexico from New Orleans, La., to Brownsville, Texas. Almost the entire system has benefited from some part of this tremendous development. Prior to the war there was practically no chemical industry in the territory. Since that time large plants such as the Solvay Processing Plant in Baton Rouge, La., the Mathieson Alkali Plant at Lake Charles, La., and Southern Alkali Plant at Corpus Christi, Texas, began to produce soda ash, caustic soda and other chemical products. Other large plants were built later by Dow Chemical, American Smelting, Celanese, Du Pont, Monsanto, Permanente Metal, Shell and Southern Acid. This chemical industry expansion was partly a by-product of the oil refining industry, but to a larger extent was due to development of natural resources such as salt, seawater, natural gas, sulphur and limestone existing in the territory. It is estimated that the chemical business alone will bring additional income of at least $6½ million each year to the System. Thus full participation is afforded in the development of our southern regions.

Increased earnings are protected from serious tax inroads by the high capitalization of the old system.

Consummation of the reorganization plan has been delayed by legal difficulties and objections from stockholders who will receive no participation under the proposed plan. However, expectations are that by the end of 1951, or even a few months earlier, the reorganization plan will be completed. By now, most of the legal problems have been solved and balloting on the new plan could commence by Nov. 1.

Under the terms of the reorganization, holders of the MOP 5½% convertibles would receive two shares of 5% preferred stock and 16.34 shares of class A common. Any revision of the plan, an improbable development, should work in favor of the convertibles.

There is already an active when-issued market for all of the new securities and paper profits have been discounted by as much as 77%. This shows clearly that consummation of the plan is regarded as almost certain.

Owners of the convertibles could keep their bonds and re-

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Steel Industry Will Do the Job

By BENJAMIN F. FAIRLESS*

President, United States Steel Corporation

Denying privately owned steel industry has not lived up to its responsibilities in war and peace, Mr. Fairless points to 90% increase in nation's steel capacity in last 11 years. Says in current situation military steel demands will be given priority, but looks for increased plant capacity also to take care of civilian needs. Says present steel shortage is due in part to strikes as well as to rush orders, and predicts patriotic men of steel will cooperate for nation's security.

It has always seemed to me that, in any well-run business, men ought to sit down from time to time and talk things over with their boss. Now a lot of people may think that I'm the boss of U. S. Steel; but, of course, I'm not. In reality, you are. You members of the National Association of Purchasing Agents, and your colleagues in this specialized profession, buy all but a small fraction of our total production. You are our principal customers, and so it is you, and the purchasing agencies of our government, who determine just what kind and quality of product we shall turn out, how much we shall produce, how big or small we shall become and what our ultimate steel-making capacity shall be.

Benjamin F. Fairless

All of us compete for your business. We exist to serve you, and we shall continue to exist only so long as we do serve you to your satisfaction. So you are the boss, and my purpose in coming here tonight is to discuss with you some of our mutual problems.

Now our mutual problems at the moment boil down to one undeniable fact: At present there is a shortage of steel. In spite of everything we have done and can do, we are not able today to turn out all of the steel that all of you want as fast as all of you want it.

Seldom in my lifetime, however, have I known any fact to be twisted, distorted, and lied about as that one has, by some of our Socialist-minded critics.

These critics base their attack on the logical, but deceptive premise, that it is the obligation of the industry to supply all the steel that the American people may ever want at any time under any circumstances. From there they jump happily to the conclusion that the present steel shortage proves beyond any shadow of a doubt that the industry has not lived up to its national responsibilities, and that its management can no longer be left safely in private hands.

Now, their premise is correct, of course, in theory; but their conclusion is ridiculous.

Certainly it is the responsibility—and the desire—of any well-managed industry to take care of its customers. And it is the obligation of any bank to pay all of its depositors whenever they want their money. But if all of the customers come in at once and demand all their money at once, they simply can't get it. No matter how sound the bank may be, it will have to delay payment until the necessary supply of cash can be assembled. Now, does that prove the bank isn't well-managed? Has it failed to live up to its public responsibilities?

The Steel Situation

Well, that's how it is with steel today. Let the government announce that it is planning to ration meat, or butter or sugar, and almost within the twinkling of an eye, meat and butter and sugar disappear entirely from the shelves and showcases at your corner grocery. And when the government finds it necessary to allocate, or ration steel—as it has announced that it will—a run on steel develops overnight.

People who think they may need a new car, a new ice box, or a new stove within the coming year or two, decide to buy it now for fear the government will not permit them to get it later. For the same reason, people who had planned to build, at some future time, a new building or a new factory, or to buy new machinery and equipment, decide suddenly to get these things now, while the getting is good. And so the orders that would normally be spread out over several years are suddenly crowded into the space of a few months. But the fact that these buyers now face delay in getting all the steel they want, is certainly no proof that the industry has failed to live up to its public responsibilities, or that it has misjudged the real needs of the American people.

Government records show that American industries as a whole—the manufacturers of everything from hairpins to locomotives—turned out more goods in 1943 than in any other year before or since. Not even today is our nation's total industrial production as high as it was then. And yet today the steel industry is pouring nearly 12 million more tons of ingots than it did then.

Gentlemen, think that one over for a moment. It means that our nation today is using 100 million tons of steel to produce a smaller quantity of goods than it manufactured out of only 88 million tons, seven years ago. Now what's happened to the other 12 million tons?

Well, it is probable, for one

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*An address by Mr. Fairless before the Annual Meeting of the Philadelphia Chapter of the National Association of Purchasing Agents, Philadelphia, Pa., Sept. 14, 1950.

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Bank Mergers in New York City

By MORRIS A. SCHAPIRO*
President, M. A. Schapiro, Inc.

Commenting on recent bank mergers in New York City, bank stock specialist gives as reasons for this development: (1) profit to stockholders of absorbed institutions; (2) low rate of earnings of New York City banks; and (3) low market prices of some bank shares. Reveals meager operating earnings and dividend payments of leading New York City banks. Sees shift in business scope of City's "Blue Ribbon" banks.

Bank mergers are in the news. They are not new, however, and have been continuing throughout the nation quietly but in increasing numbers. Recently, because of their number and the rapidity with which these consolidations have occurred in New York City, they have aroused national attention.

Morris A. Schapiro

In New York City are located the majority of the banks eligible for investment by the savings banks of Massachusetts. New York is also the nerve center of the nation's private banking system and since its problems are in many ways not unlike those existing in other areas, bankers everywhere are anxious as they watch these startling merger developments.

Our purpose today is to consider the reasons behind bank mergers in New York City. This development has growing significance to the private and institutional investors whose capital enables commercial banks to operate as private enterprises.

When the most recent merger proposal is ratified by stockholders, a total of eight commercial banks in New York City will have been retired since early 1948. The banking assets represented by these eight banks were considerable. Together, they had total deposits of $725 million, now held by the surviving banks. These eight banks had total capital accounts of $61 million. Their stockholders will have received about $52 million in cash and about $11 million in stock. Stockholders, in particular, are asking the question whether other absorptions or consolidations are in prospect.

But the deeper question is: are the reasons for the mergers already witness of a temporary nature, or are they reasons of growing importance and application to other banks? The first fact is: the stockholders sold their banks. These were profitable transactions.

In each case, the value realized for the bank was far in excess of the previously quoted market price for the bank stock, and the stockholders realized the full benefit. In one transaction, just ratified, stockholders of the selling bank can now redeem their shares at $69 per share against a market price of $41, quoted only a few weeks earlier. Stockholders of the eighth and largest bank to be sold have seen their stock rise from $130 a share in July to $230 a share today. They need only ratify the transaction to receive their full benefit.

Stockholders Benefit

Under the circumstances, stockholders obviously are attracted to such merger proposals. Individuals have an immediate gain and trustees are enabled to conserve assets for beneficiaries. Furthermore, the proceeds can be placed in shares of other equally desirable banks, available at a discount.

This situation clearly demonstrates that in these years of high prosperity, New York City banks as a group are not earning enough on their stockholders' money. If they were, their shares would not be quoted in the market place at such a discount from book value that merger proposals become irresistible. Stockholders of banks whose shares are quoted at a premium or at book value are not likely to consider selling their banks.

It is generally conceded that many common stocks are selling below their intrinsic values. Banking, however, is different from other businesses. In the case of banks, book values are usually realizable, often readily realizable through merger, sale of assets, or even outright liquidation. Investment in plant and equipment is relatively low. And obsolescence and wear and tear are not so important in the case of banks. Hence, the book value of a bank is not comparable to the book value of an industrial. The eight transactions in New York City are evidence of this.

Shares Quoted Below Book Value

Among the surviving New York City banks, shares are still quoted at less than book value, a reflection of the discount which the market places on the stockholders' money. The impact of low earning power is clear. If a bank's earnings are $5 per share or only 5% on its book value of $100, the market would have to appraise these earnings at 20 times for the quotation to equal book value. Such an appraisal is out of line and unreal in the market for equities.

In New York City 19 banks had combined net current operating earnings of $128 million in 1949. This was equal to a rate of 5.73% on their total capital accounts. Eighty million dollars (or 3.60%) was declared in cash dividends, and $48 million, or 2.13%, retained in the business. The low rate of 5.73% is the reason for their shares at a discount.

This same performance, however, when viewed in terms of the discount which the market places on the bank's stock, presents a markedly different picture. Thus, on the current market quotations, these results are at the rate of: earnings, 7.2%; cash dividends or yield, 4.5%; and retention, 2.7%.

1949 Performance of 19 New York City Banks

	N.C.O.E.	Divs.	Retention
On the book value	5.73%	3.60%	2.13%
On the market value	7.20%	4.50%	2.70%

With each merger, there is a recurring question. With its own stock at a discount, how can the acquiring bank justify to its own stockholders the purchase of another bank at a premium or even at appraised book value? But unless the transaction includes a premium for good will, the acquiring bank spends none of its stockholders' money. In a "cash merger," after its liabilities have been assumed by the acquiring bank, the capital funds of the retiring bank are released and, in effect, used to redeem its outstanding capital stock.

The capital released to stockholders of the selling bank represents the final net book value after appraisal of its assets and determination of its direct and contingent liabilities. Stockholders of the selling bank thereby redeem their own shares with their own money. Meanwhile, the acquiring bank's stockholders find their institution benefiting from new branch locations, new customers and increased deposits. All this, remember, at no cost to the acquiring stockholders unless a premium was paid for good will.

The earnings of the retiring bank now become those of the buyer whose added earning power may be roughly estimated at ½% of the new deposits acquired. Thus, as a result of the eight merger transactions in New York City, the acquiring banks, whose deposits are now $725 million higher, have increased earnings of nearly $4 million.

These are the mechanics of the merger operation in its broadest outlines. Actually, however, many complex factors are involved. In every instance such transactions require the approval of the banking authorities. And in each case, the acquiring bank must have a sufficiency or excess of capital to warrant the assumption of the added liabilities.

Merger Trend to Continue

But despite the complexities of the problem, it is apparent that the merger trend is not merely temporary but is based on fundamental conditions of concern to bankers everywhere. Bank earning power is too low, and therefore mergers are approved by stockholders.

Stockholders are aware of the implications of this development and have become increasingly sensitive to its potentialities. The trend would seem to be governed by three major considerations. These are: (1) attainment of a satisfactory deposit-capital ratio; (2) unbalance of distribution of capital among the New York City banks, and (3) the public interest.

The deposit-capital ratio of the New York City banks does not provide them with enough earning assets to produce a fair return on capital. Banks in the New York Clearing House show total net demand and time deposits of around $23 billion. The stockholders' investment in these banks is about $2.4 billion. Here is a ratio of 10 to 1.

In other days this was quite a satisfactory ratio to make possible a good earning rate on capital. But in these days of high expenses, low interest rates, and increas-

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*An address by Mr. Schapiro at the 33rd Annual Convention of the Savings Banks Association of Massachusetts, Portsmouth, N. H., Sept. 16, 1950.

Economic Impact of Defense Production Act

By M. R. NEIFELD*
Vice-President, Beneficial Management Corp., Newark, N. J.

Dr. Neifeld analyzes provisions of Defense Production Act of 1950 and maintains it gives biggest bundle of powers ever handed to President. Holds main powers need not be used under contemplated military outlays, since overall productive potential can take care of this, with little reduction in civilian supplies. Warns we must be careful of misdirected efforts in applying provisions of Defense Production Act, and concludes nation's economy can almost take present program in its stride.

Last Friday the President of the United States signed the Defense Production Act of 1950. Section 410 of that Act reads:

M. R. Neifeld

"Each contract providing for the purchase of processed chickens or turkeys by any department or agency of the U. S. from any contractor, entered into at any time when ceiling prices are in effect under this Act for whichever of such fowl is covered by such contract, shall contain the following provision (with such change as may be necessary to describe the fowl covered by the contract):

"'The contractor represents that the contract price is based upon an estimated price paid to the producers for live chickens or live turkeys to be processed hereunder. In the event and to the extent that the actual price paid to the producers of live chickens and live turkeys purchased for the performance of this contract is less than such estimated price, the contract price shall be reduced by the same number of cents or fraction thereof, per pound.'"

I don't know what all that fowl language means. It is just one minor item in the biggest bundle of powers ever handed to the Chief Executive. If the full range of powers under the Act is invoked by the President, the whole face of America will be changed. That Act sets the economic climate in which you will be operating for the duration.

To promote national defense the President is given *carte blanche* to curtail normal civilian production and purchases and to redirect certain materials and facilities from civilian to military and related purposes. He may direct what contracts shall take priority of performance over any other contract and order and he may allocate materials and facilities accordingly. Freedom of management is in abeyance. Inventory controls reach right into the family cupboard. Scarce materials as designated by the President may not be accumulated in excess of reasonable demand of business, personal or home consumption, on penalty of $10,000 fine or imprisonment for one year, or both. No standard is spelled out for "reasonable demand."

At his discretion the President may commandeer (requisition is the polite word) the use of any equipment, supplies, or component parts thereof, or materials or facilities necessary for the manufacture, servicing, or operation of such equipment.

Without regard to provisions of law relating to the making, performance, amendment, or modification of contracts, the President through various government departments may finance any contract or other operation deemed by one of these departments as necessary to expand facilities to expedite production and deliveries or services needed for national defense.

Without regard to the limitations of existing law, the President may make provision for purchase or resale of metals, minerals, liquid fuels, and other raw materials. He may transport, store, process and refine these materials.

He can install additional equipment, facilities, or processes, or improvements to plants, factories, and other industrial facilities owned by the United States Government; and he can install government-owned equipment in plants, factories, and other industrial facilities owned by private persons.

For these purposes there is appropriated $1,400,000,000, and an additional $6,000,000 may be borrowed from the Treasury of the U. S.

To prevent inflation, to stabilize the cost of living and to assist in maintaining a reasonable balance between purchasing power and the supply of consumer goods services the President may approve voluntary programs and agreements by business, agriculture, labor and consumers, which otherwise would violate the antitrust laws and the decrees of the Federal Trade Commission.

All Powerful Controls Granted

Where voluntary programs are not effective the President may issue regulations and orders to fix

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*An address by Dr. Neifeld at the Accounting Conference, Rutgers University School of Business Administration, New Brunswick, N. J., Sept. 15, 1950.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

For the nation as a whole, aggregate industrial production held fairly steady the past week, and when compared with the similar week in 1949, total output was sustained at a noticeably high level.

As was the case in preceding weeks, accumulated claims for unemployment insurance continued to taper off in the period ended Aug. 26 but, contrary to this trend, initial claims underwent a very slight seasonal rise.

* * *

On the labor front the news was both favorable and otherwise. With respect to the strike at the General Electric Co., the company stated on Friday, last, that it had agreed on a new contract with the CIO International Union of Electrical Workers. Settlement of the strike with the rival United Electrical Workers (Independent) became effective on Sunday, last, with the signing of a two-year contract. Both unions represent more than 100,000 workers in 116 General Electric plants throughout the nation.

The CIO pact calls for a 10-cent hourly wage increase. A cost-of-living pay rise arrangement is provided following the pattern set by the CIO United Auto Workers and General Motors.

The U. E. contract, subject to approval by the membership and the U. E.-G. E. Conference Board, provides for an hourly wage increase of 10 cents, 5 of which had been placed in effect last July 1 and 5 to become effective as of Friday, the date of the agreement.

Unlike the CIO union, the U. E. rejected an escalator wage clause based on the cost-of-living index, and obtained a provision for reopening wages for negotiation after the first six months of the contract. Other provisions are for pensions ranging from $125 to $196 a month, depending upon length of service.

In addition to the General Electric settlement, the Farm Equipment Workers Council of the United Electrical Workers Union (Independent) ended its strike at the nine plants of the International Harvester Co. At Buffalo, N. Y., the CIO United Autoworkers accepted a new contract with the Bendix Corp. providing for an eight-cent hourly boost and a cost-of-living escalator clause, after the General Motors pattern, while in Toronto, an offer by Ford of Canada for a new five-year contract was rejected by officials of Local 200 of the CIO-UAW. The company described the contract as "the best in the Canadian automobile industry."

Further unfavorable labor news was the report of a strike at the Ohio Edison Co. with indications of a possible walkout in November at the B. F. Goodrich Co. plants. At present about 5,000 miners of four companies are involved in the walkouts resulting from disputes over overtime pay for swing shift crews. The Hanna Coal Co., subsidiary of Pittsburgh Consolidation Coal Co., one of the companies affected, alone produces 35,000 tons daily. At Chicago, the CIO Packinghouse Workers Union has asked its executive board in Chicago to authorize a strike against Wilson & Co. plants in seven cities.

* * *

In the steel industry this week the situation with respect to steel supplies remains critical. According to "Steel," a national metalworking magazine, steel consumers, pending establishment of a government-sponsored allocation system, are pressing even harder this week for tonnage, but are meeting with stiffer resistance from producers who are practically sold out for the remainder of the year. Only for national emergency work are buyers able to make noticeable progress getting additional tonnage on mill books, and then only after requirements are thoroughly scrutinized. A little tonnage is available in the premium markets, but this represents but a drop in the bucket compared with consumption. Steel production is pushed to the limit of available facilities but the steelmakers are falling behind demand steadily.

As for prices, a strong price tone prevails in the finished steel and related markets, but few changes of consequence were reported last week.

* * *

Emergency controls on industrial inventories to discourage over-buying were imposed on Monday of this week by the new National Production Authority along with curbs on consumer instalment credit purchases of automobiles, furniture and home appliances. The order covers stocks of 32 scarce raw materials and semi-finished products. It is understood, however, that sufficient leeway has been left to make the rules easy or difficult, as the occasion warrants. The new credit controls were first made public about 10 days ago and, included with the controls governing industrial inventories, represent the first definite actions by

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Bell V.-P. and Cashier Of Chase Nat'l Bank

Kenneth C. Bell was appointed Vice-President and Cashier of the Chase National Bank by the board of directors yesterday. He succeeds Albert J. Egger, who will retire in the near future after more than 40 years of service with the bank.

Mr. Bell, who for three years has been secretary of the Chase board of directors, has been a Vice-President of the bank since 1942. In charge of the bank's Insurance Department and Vice-President of the Chase Safe Deposit Company, he has for many years been widely known in insurance and safe deposit circles.

Mr. Bell's entire business career has been with the Chase, which he entered in 1919 after service in the U. S. Navy in World War I. For 11 years beginning in 1937 he was a lecturer on insurance subjects at the American Bankers Association's Graduate School of Banking at Rutgers University. He is a director and treasurer of the American Society of Corporate Secretaries, Inc. At present he is serving his second term as President of the Canadian Society of New York. Born in West Africa of American missionary parents, he was graduated from the University of Toronto in 1916.

Business Man's Bookshelf

Automobile Facts and Figures—30th Edition—Automobile Manufacturers Association, New Center Building, Detroit 2, Mich.—Paper.

Bernard Baruch—Portrait of a Citizen—W. L. White—Harcourt, Brace and Company, 383 Madison Ave., New York 17, N. Y.—Cloth—$2.00.

Causes of Industrial Peace Under Collective Bargaining — The Marathon Corporation vs. Seven Labor Unions—National Planning Association, 800 Twenty-first St., N. W., Washington 6, D. C.

Faith? Purpose and Power — A Plea for a Positive Policy—James P. Warburg—Farrar Straus and Co., 53 East 34th Street, New York 6, N. Y.—$2.00.

How to Lay a Nest Egg—Financial Facts of Life for the Average Girl—Edgar Scott—The John C. Winston Company, 1006-1016 Arch Street, Philadelphia 7, Pa.—Cloth—$1.50.

Investment in This Changing World—Otto von Mering — Barron's Publishing Company Inc., 388 Newbury Street, Boston 5, Mass.—Cloth—$3.00.

Personnel Administration and Labor Relations in Department Stores—An Analysis of Developments and Practices — Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—Paper—$2.50 Cloth—$3.

Prejudice in Textbooks—Maxwell S. Stewart — Public Affairs Committee, Inc., 22 East 38th St., New York 6, N. Y.—Paper—20c.

Truth That Frees, The — Sam Evans Hayes — Learne & Live, publishers, 8001 Lakemont Drive, Seattle 5, Wash.—Paper — single copies 25c (lower rates for quantities).

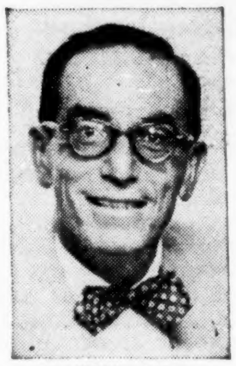
Observations . . .

By A. WILFRED MAY

UN's HOUR OF CRISIS

As Noted From the Assembly's Re-Opening

FLUSHING MEADOW, QUEENS, N. Y., Sept. 19—Retiring President Romulo's prayer here today for the future of the General Assembly, including its elevation from a mere debating society to an effective partliamentary body, may conceivably come true. Perhaps this session will reach its goal of a democratically unified Korea, and otherwise establish the moral authority of the United Nations. But if it does so validate itself and insofar as any major decisions are reached, it is becoming ever clearer that this will result not from parliamentary logic, but purely and simply from power politics. The fireworks of the Vishinskys constitute a mere side show, serving as a propaganda tool.



A. Wilfred May

The Facts Not the Vote Determinants

For example, the question whether China's Nationalist or Communist Government is the "reactionary" one, and which one is actually a "puppet clique," like the other issues being bitterly bandied about the floor here this afternoon, will ultimately be settled not by the objectively determined facts, but by the contending Powers' bargaining strength on the world's diplomatic chessboard. It is suspected in some quarters that Secretary Acheson is merely maneuvering to delay the Chinese Communist regime's admittance to accord with his concealed desire to bring them in on his own initiative after the ending of the Korean fighting. Conversely, the Kremlin is probably really desiring Red China's continued exclusion with the odium attached to Mr. Acheson. In any event, the sole determinant of the UN's verdict on China's internal and external political questions will be Big Nation overbalancing diplomatic-military power. The Polish representative openly laid the charge before the Assembly this afternoon that the Nationalist Government's prolongation "depends on U. S. guns." The votes may well follow the Big-ger Stick!

East Versus West Versus UN

Asignificant and succinct statement of the position at which the UN organization has now arrived was stated tonight by Britain's representative, Sir Gladwyn Jebb, in an address before the U. S. Council of the International Chamber of Commerce. Surely the above-outlined balance-of-power, or balance-of-ideology, concept of ours is validated authoritatively by the British leader's following frank conclusion to his talk: "So long as this attitude of mind [the worldwide promotion of Communism] persists, the United Nations cannot in the nature of things pursue its prime mission and achieve its high purposes laid down in the Charter. We can hope and pray that the day will come when it can, and I have no doubt that we shall powerfully assist its coming by helping the United Nations to do what it can and should undertake now, namely, the gradual organization, both political and economic, of the [sic] free and democratic world."

Another strong and significant demonstration of the wrecking of true world organization purposes resulting from the growing East-West rift, is furnished by the mutually inconsistent aims and operations of the Point IV program. On the one hand, United States participation was approved legislatively with the preamble that its basic purpose is to further the foreign policy of the United States and contain Communism. On the other hand, contradictorily, it has been arranged to operate the Program through a United Nations, of which the pro-Communist countries are co-members. Surely "something must give"—either the national or the all-nation interest—when they are in direct conflict.

Our Military Shortcomings

The eventual realization of this pervasive rivalry between nations within the UN, a situation becoming constantly accentuated ever since the San Francisco Conference of 1945, has finally made evident the need for military might by the West. But it still appears doubtful whether its crucial and timely importance is fully appreciated, particularly by our European friends. Britain's continuing negligence in this regard (in the face of under-

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Public Relations and Training Programs in Financial Industry

By WINTHROP H. SMITH*
Partner, Merrill Lynch, Pierce, Fenner & Beane

Contending financial industry should recognize that public relations is major operating problem equal in importance to sales or personnel procurement, Mr. Smith describes progress made in recent years by the New York Stock Exchange and other organizations to improve public knowledge of investments and investment operations. Says basic job of public education by investment houses has only scratched the surface and more must be done to improve general attitude toward Wall Street. Stresses importance of personnel training and recounts efforts of his organization to equip young men for jobs in the industry.

Public relations in Wall Street for years has been the homely orphan that is frequently the subject of conversation but never the object of love and affection. Everyone has wanted good public relations, but until recently no one has been willing to make the decisions, devote the time or spend the money to build a decent public-relations program for the financial community.

Winthrop H. Smith

We are beginning to make some progress but we were frightfully slow in getting started, and we are not moving forward on all fronts even yet.

Before any industry or any company can really embark on a public relations program, there must be a realization of what its public relations problems are. There must also be a determination to take the medicine that the problem demands. You can't buy good public relations with money or with a Washington lobbyist or a high-powered press agent. Only by knowing the problem, by the most careful planning and with the cooperation of the entire organization can any company succeed in having good public relations. There are no set formulas to accomplish results.

When the management of any company becomes serious about this important subject, there must be a program designed for its industry and tailored for the particular firm and for its individual problems.

Fundamentals of Public Relations

There are a number of fundamentals involved in every public relations program. These fundamentals are at the foundation of every well organized public relations program, whether it be investment banking, selling groceries, building airplanes or operating a railroad. Without these basic things, no program will succeed.

First among the fundamentals is the recognition by top management that public relations is a major operating problem holding the same importance as sales, procurement, personnel or any of the other usual divisions of any business. When management has realized the importance of public relations, it must next be firmly established that this important phase of the business is a function of top management.

Many operational functions can be and should be delegated down the line. Various administrative duties should be delegated, but the control of the public relations of any business must be at the top where basic policies originate and where policy decisions are made.

Although public relations should head directly into the chief executive's office, it shouldn't be merely an appendage of that office. If it is, it usually happens that this department will handle publicity by theatre tickets, perhaps publish a house organ, obtain seats for world series games, and other emergency matters that are designed chiefly to please the large customers, but that isn't good public relations.

The importance of public relations must be instilled into every major function and department head in the organization, and that I can't emphasize too much.

With this background which I believe to be the only sound public relations philosophy, let's take a look at the specific situation here in the Stock Exchange community.

I would like you to go back with me to review the situation as it existed some 10 years ago when our firm, Merrill Lynch, Pierce, Fenner and Beane, inaugurated our present public relations program, and when the first steps were being taken by the New York Stock Exchange.

At that time the public still vividly remembered the Pecora investigation which disclosed among other things that the insiders in the Exchange community had manipulated prices. Wall Street has been subjected for a whole decade to a stream of denunciations from people in high political circles. A former President of the New York Stock Exchange had been sent to jail for embezzlement; the Securities Act of 1933 and the Securities and Exchange Act of 1934 had been enacted to correct alleged abuses in the securities industry.

Both the investment banking business and the brokerage business were in the doldrums. Most firms were losing money. There had been thousands of people discharged from financial houses simply because there wasn't enough business to keep them at work. The entire atmosphere was one of deepest pessimism.

It was in this atmosphere of public disapproval and internal difficulties that the public relations program of our firm was born. In the financial community it was held that, because of the millions of dollars that changed hands in Wall Street on the basis of a nod of the head or a simple word, the honesty and integrity of the community couldn't be questioned. The code of ethical conduct always observed between members in the execution of their daily business with each other, was deemed to be proof enough of the standards of financial reliability prevailing in Wall Street—but the public felt differently.

Despite the fact that there were millions of small investors and speculators in the market in 1929, it was still commonly asserted in Wall Street that for the most part only the well-to-do dealt with brokers, and these well-to-do persons understood the functions of the Exchange and were highly in favor of its methods of operation — and we found even the well-to-do didn't feel that way.

Men engaged in the underwriting business looked at the tremendous factories and millions of jobs that had been created with the money they had raised, and felt they had done a job that was sufficient proof of their economic usefulness. However, the constant barrage of abuse, shrinking markets and government regulations, finally convinced them by 1939 that neither the ethical standards of the business nor its economic usefulness were appreciated north of Fulton Street.

There is an old advertising man's adage that "If you want to sell a product, your first job is to get a good product, and the second job is to put it up in a good package." A good package will not sell a poor product for very long, but even a good product in an unattractive package will not sell. From the point of view of many people in Wall Street, their product was a good package and all they needed to do was to sit back and let the world find out about it, and the world would beat a path to their door. Well, it just didn't work that way.

Ten years ago Wall Street was in such a state of depression that it became apparent that this philosophy of letting nature take its course wouldn't work. Then the Stock Exchange retained Elmo Roper to find out what the public, both the investors and noninvestors, really thought about the Stock Exchange, its member firms and the investment business generally.

The findings of that survey were appalling. The public as a whole simply didn't believe that Wall Street had a good product to sell. Thousands upon thousands of people apparently didn't even know what the Stock Exchange was. People who regularly did business with member firms were highly critical of many of the Exchange practices. The attitude of the public at large was even more critical.

A Mystified Public

In general the public seemed to believe that mythical insiders made money whenever an individual member of the public lost money. The public believed that customers' men of member firms recommended the purchase and sale of securities simply to create commissions for themselves. There was widespread suspicion about

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*A lecture given on Aug. 9, 1950, the 14th in a series of 17 on Securities Analysis sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

Factors in Investment Management

By THOMAS F. LENNON*
General Partner, Delafield & Delafield,
Investment Advisers, Members, New York Stock Exchange

Defining investment counselor as "an individual or firm engaged in no other business but rendering investment advice," Mr. Lennon contends his work goes beyond merely taking care of client's securities and involves recommendations in tax, trust and estate matters. Lists as essentials in managing an investment portfolio: (1) developing basic program for an individual investor; (2) study of underlying economic conditions, together with analysis of industries and securities; and (3) affording custodian services for securities. Distinguishes between brokerage and advisory service.

It is my firm conviction that the terms Investment Adviser and/or Investment Counselor, used to describe our business, are misnomers, in that neither begins to describe either the complexities of the profession itself, nor the number of responsibilities, entirely apart from the securities end of the business, which must be assumed.

Thomas F. Lennon

For example, here in New York, we are expected to produce promptly, and on no advance notice whatsoever, hard-to-get ship, rail and air space, tickets to leading shows at box office prices, 5th row center only (on account of Aunt Ella is hard of hearing and can't see well from too far back), passes to popular broadcasts, and introductions to prominent persons. We, of course, can't be very good if we haven't sufficient influence to insure young Clarabella's or young Archie's entrance into a given school or college, and we most certainly can't be very well known if we can't get Army-Notre Dame tickets near the 50 yard line.

In some quarters, we are looked on a little queerly when we say we have never been in Sherman Billingsley's Club Room or that we wouldn't have any idea how to go about placing a little bet with Mr. Frank Erickson, personally.

I assure you I am not exaggerating. Every one of these things has happened to me, and others of us, in this business here and elsewhere.

We have ceased being surprised by the nature of these extra-curricular requests, and we have come to realize that, after all, they are very important in the minds of our clients, and I suspect that most of us are a little flattered that our clients have the complete faith and confidence, as in children for their parents, that we can accomplish these things. We therefore do everything in our power to make good, no matter what.

On the serious side, also, the terms Investment Adviser and/or Investment Counselor are again inadequate, in that the terms would appear to limit the responsibilities to the rendering of investment advice only. This is far from the fact.

Perhaps, at this point, I should explain to you that there are similarities, and differences, in the type of services rendered by the Investment Adviser and the Investment Counselor. The differences are such as to require the spelling out by law those who may use the term Investment Adviser and those who may call themselves Investment Counselor.

An Investment Counselor is an individual, or firm, engaged in no other business but that of rendering investment advice. This advice can, and does, go beyond merely advising on securities. An Investment Counselor generally does not take custody of securities; does not trade in securities; does not participate in new offerings; and does not provide brokerage facilities. An Investment Adviser, on the other hand, may be engaged in a business other than the rendering of investment advice, such as a lawyer, or a bank, or such as in the case of my firm, which by reason of being a member of the New York Stock Exchange and other exchanges, can provide facilities for custody of securities and consummation of brokerage transactions.

From a competitive point of view, some, not all, Investment Counselors delicately hint that some Investment Advisers may be primarily interested in the brokerage commissions, in connection with the security advice rendered. The fact is, however, that many Exchange members engaged in the Investment Advisory business on a fee basis credit a part, or, as in the case of my firm, all brokerage commissions received to the client's fee, and in addition place certain restrictions on dealings with fee clients with respect to securities in which the firm may have an interest. In the case of my firm, we do not deal in securities nor participate in new offerings at all. The similarities in the work of the Investment Adviser and/or the Investment Counselor are that each acts in a *completely unbiased fiduciary capacity*. Each understands that his job is to protect his clients' fortunes, not only during the lifetime of the owner, but to advise and to help him in the protection of his family as well. Leading Investment Advisory and Investment Counselor firms retain legal and tax experts to render opinions on legal and tax problems and on such matters as to whether wills are properly constructed to carry out the wishes of the maker. Neither the Investment Adviser nor the Investment Counselor may, or will, give either legal or tax advice. They may express opinions on such matters, based on the opinions of their own legal and tax experts, but always with the admonition, that such opinions must be checked with the client's own attorney or tax expert.

The complacency on the part of many owners of large wealth in relying on their own ability to take care of themselves without any legal, tax or investment advice, is beyond belief and often startling when the possible damage to fortunes because of lack of knowledge and experience becomes apparent.

For example, we recently had the case of a highly successful businessman who owned approximately $2 million in securities, and, in addition, two completely

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*A lecture given on Aug. 11, 1950, the 15th in a series of 17 on Securities Analysis sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

Responsibilities Of Bank Investment Officer

By F. BRIAN REUTER*

Vice-President, Mellon Nat'l Bank & Trust Co., Pittsburgh, Pa.

Mr. Reuter contends well qualified investment officer must not only know his job thoroughly, but must also be able to get his seniors to understand the factual basis and logic of his conclusions. Holds emphasis should be on income and not capital gains and warns departure from high quality standards seldom pays.

F. Brian Reuter

Well informed investment men in the banking business know that the changes which have occurred in their field have been no less dynamic than those which have been witnessed in industry and commerce during the past 25 years or so. The significance of all that has transpired from, say, the founding of the Federal Reserve System to the accepted money management policies of a modern state is understood by us and we can relate the impact of these changes to a present-day investment policy. However, these changes and more importantly, their effects, are not fully understood by the average layman even if he has no peer in his own field or in other fields of endeavor and by that token is a man of high intelligence.

In fact, institutional investment management has become a highly developed and specialized technique. There can exist the danger that a board or finance committee consisting primarily of non-investment men will supervise too closely the operations of a portfolio under their control.

It is not sufficient that a well qualified investment officer knows his job thoroughly. One of his responsibilities is to see that his seniors understand the factual basis and the logic of his conclusions. The majority of investment officers neither own nor are running the banks they work for. They have boards, committees and officers senior to themselves who feel a sense of responsibility and thus exert influences on a bank's portfolio. The possibility exists that if all concerned do not understand the workings of the money market under modern conditions and the consequences of governmental policies, they will fail to grasp the effects of such compelling forces on the bond market. Under such conditions optimum results can scarcely be obtained from a bank's bond portfolio.

Thus, no link in the chain of management can be regarded as exempt from the necessity of fully understanding money market factors. If there are misunderstandings, it is imperative, to my mind, to find an opportunity, or to make the opportunity, to expound on the factors and influences which govern the money supply and rate of interest. The idea must still be sold to many, that it is a fact that in a modern economy—such as ours—the State has the sovereign power to regulate money rates, to expand or contract the supply of credit and, further, that it has been amply demonstrated that the controls already in the hands of our money managers are highly effective. Unless an investment officer can implant an awareness of present-day realities, he cannot dispel the outmoded concept still held by many—"We've seen high bond markets before and they've always come down sooner or later." Many of us, I believe, are in agreement on the probability that medium and long-term rates are unlikely to fluctuate far from present levels for a number of years but we would be quite impotent and would run a relatively unproductive bond portfolio if people are looking over our shoulder visibly worried and worrying us also when the long-term bond market goes off a point or two or, even more incomprehensibly, wanting to sell sound income producing assets because the quoted markets for these loans are "so high."

Another responsibility of the officer operating an institutional portfolio is to persuade his superiors and friendly critics to exercise what could be called the "actuarial viewpoint" in judging investment results. It is only over a period of years that the quality of stewardship of an investment account can be fairly measured. A most elementary example of this is to refrain from constantly looking at either the profits or the book losses on high grade, medium or long-term bonds, but instead to see how many years they have been held at the relatively high yield obtained thereon in comparison with that of short-term securities and compare these years of excess income with book appreciation or depreciation.

It occurs to me that the inference might be drawn from my foregoing remarks that a personal viewpoint is present. It has been my good fortune for many years to have an unusually free hand in the several portfolios which I manage—accorded by what I naturally consider a most enlightened management.

Recommended reading, in my opinion, for those who are interested in banking is what at first glance appears to be a very uninteresting tabulation which, however, I have found never fails to excite the interest of the bank directors or officials who have neither seen it before nor have had explained to them the significance of the story which it tells. This tabulation which I have before me shows the total deposits, total loans, total investments and ratio of loans to deposits of all national banks from 1863 to Dec. 31, 1949.

The last year in which our national banks had 100% of their deposits committed to loans and discounts was in 1893 since which time there has been a consistent decline. In 1929 when a great business boom reached its peak, the national banks were lending 67% of their deposits. Measured by both unit output and dollar volume, we are in the biggest boom in our history despite which the national banking system at the end of last year was lending only 28.7% of its deposits. This chart indicates that whenever this declining ratio has stabilized at a given level for a few years, it has

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*A lecture by Mr. Reuter before the New York State Bankers Association Investments Seminar, New York City, Sept. 15, 1950.

Building-Up Bank Investment Policy

By L. SUMNER PRUYNE*

Vice-President, First National Bank, Boston

Boston banker, in outlining policy for commercial bank investments, stresses current position of each bank as determinant factor. Says there is no formula for computing required size of Secondary Reserve, as each bank must vary size in accordance with current drift of its deposits. Stresses importance of maintaining adequate amount of liquid securities in secondary reserve, and warns securities used in place of Government bonds held in Investment Account should have a substantial yield differential. Explains method of "spacing" maturities to obtain hedged position in reserve investments.

Ordinarily a talk along lines of general investment policy is apt to divide itself into three parts: an introduction, the talk itself, and a question-and-answer period. Very often the last part is by far the most interesting since the questions serve to focus attention on the particular problems at hand.

L. S. Pruyne

Therefore, in the time allotted to me, I suggest that we try the experiment of building our whole discussion on a question-and-answer basis. Perhaps we can visualize as our questioner a businessman who has been a director of a small or medium-sized commercial bank in his community for a number of years but who has only recently been asked to assume the direct management of the bank as its President. This man is familiar in general with the problems of the bank but goes to the investment officer of his city correspondent for a discussion of broad policies which might be helpful in assuming his new responsibility for the investment of the funds of his institution.

Embarking upon our experiment, it is more than possible that his questions as well as the answers suggested by the city correspondent, might fall into the following general pattern:

Question: What do you regard as a desirable starting point in the building-up of an investment approach or philosophy for our bank?

Suggested Answer: A knowledge of your own bank. For example, you must ascertain how much of your resources you need to tie up in fixed assets and in your Primary Reserve. In the latter we include required reserves, as well as such items as till cash, float and balances with correspondents, which would be liquid were it not necessary to keep them at certain minimum levels. After allowing for fixed assets and Primary Reserve, the problem becomes one of making the best possible use of your remaining assets in loans and investments.

To do a competent job in the field of investments you must recognize that your securities are going to be called upon to perform two quite separate and distinct functions. The first function is to provide proper liquidity against falling deposits or rising loan demands. The second function is to provide a reasonable earning power on those funds not needed for liquidity and not being loaned to customers. The liquidity fund, or Secondary Reserve must necessarily be made up of short-term securities, while the balance available for investment primarily for income will undoubtedly include some issues of intermediate or longer maturity. The starting point, therefore, is to determine the extent of your liquidity needs so that you may allocate to the Secondary Reserve an adequate but not an exaggerated amount of securities.

Question: What formula do I use to compute the size of the Secondary Reserve?

Suggested Answer: Unfortunately, there is no set formula, as the answer will not only vary for each bank but will also depend upon changing conditions. However, the protection you are seeking is primarily against falling deposits. Hence, you might start by studying deposit trends on the national level as they affect the banking system as a whole and you might then study the local factors peculiar to your own situation.

Looking at the national level, you will see that the five major factors which could cause deposits to change are at present not going in the same direction, but there is, nevertheless, an indicated definite trend on balance. For example, the recent tendency of gold to leave the country and a possible tendency for circulation to increase represent the two principal factors tending to reduce deposits. On the other hand, the present trend of loans is definitely up and will tend to increase deposits, although it will use up some of your liquidity because of increased reserves required on these new deposits.

Potentially the two most important factors, however, are the securities held by the commercial banks and by the Federal Reserve banks. These two security portfolios in turn assume their near-term importance because of the probable deficits of the Federal Government arising from the armament program. It is to be hoped that the Treasury will finance as much of those deficits as possible through non-bank investors without any net effect upon the country's deposit structure. However, the portion not taken by non-bank investors necessarily must be sold to the banking system. As you know, the technique of doing this during World War II was for the Federal Reserve banks to absorb approximately 20% of this residual financing. The purchases by the Federal established a base of reserves upon which the commercial banks could absorb the remaining 80%. In case the deficits themselves prove to be substantial, it is likely that the amount of residual deficit financing absorbed by the banking system will also be substantial.

Thus the outlook for the banking system appears to be one of deposit growth arising from increased loans and from increased investment holdings both in the commercial banks and in the Federal.

However, this does not mean that your own local situation will necessarily follow the national trend since local factors (such as dependence upon one industry) may cause seasonal or special swings differing from the trend of the country as a whole.

Furthermore, we agreed earlier that the Secondary Reserve should provide liquidity not only against falling deposits but also against the possibility of rising loan demand. Please keep in mind, however, that rising loans do not ordinarily coincide with falling deposits since rising loans are one of the factors which cause deposits to increase. Therefore, you should seek special liquidity against rising loan demand primarily when you feel that an increase in your loan account will not be correspondingly reflected in your own deposits.

Question: You visualize the trend of deposits as upward. Why, then, is it necessary or desirable for my bank to hold any appreciable Secondary Reserve at the present time?

Suggested Answer: It might seem logical to use a period such as the present as an excuse to limit the Secondary Reserve to a relatively small figure. However, before skimping on the Secondary Reserve, it would be well to allow for the following factors:

(1) The Secondary Reserve is your only real source of liquidity as the Primary Reserve includes only the minimum cash and the bank balances necessary to cover reserve requirements and to provide normal working capital.

(2) The Secondary Reserve must take care of any anticipated increase in loans in case you estimate that such an increase will not be more than offset by increased deposits.

(3) Even though the national deposit trend is up, your own trend may be different. To study this, it might be well to analyze your 25 or 50 largest accounts to see whether present balances are vulnerable because of being unduly inflated.

(4) While the over-all trend may be up, there may still be temporary dips. As one illustration on the national level, the government may have a large deficit for the full year, but a cash surplus in the first quarter of the calendar year, with the result of decreasing deposits in that particular part of the year. Similar seasonal fluctuations can occur on the local level.

(5) Should reserve requirements be raised, your Secondary Reserve should be large enough to enable you to meet the increase without selling longer-term bonds in your more permanent Investment Account.

(6) After studying the five specific factors already enumerated and making proper provision for them, it would be well to include in the size of your contemplated Secondary Reserve at least some allowance for a margin of error or for what might be called the unknowns of the situation. After all, the study of all these various elements is primarily a matter of estimate rather than an exact science. Hence, some provision for contingencies, added to the five other specific factors, will convince you of the need at least of some moderate-sized Secondary Reserve even in a period when the general trend of deposits is upward. If the Secondary Reserve fulfills its function of providing all needed liquidity, the residual part of your securities, which we can describe as your Investment Account, will remain reasonably constant in size.

Question: To help start my thinking with regard to this residual Investment Account, what types of bonds do you suggest and particularly what are your

Continued on page 32

*A talk by Mr. Pruyne before the New York State Bankers Association, Investment Seminar, New York City, Sept. 15, 1950.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Common Stock Portfolio for the investment of $25,000—Leaflet—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Freight Car and Locomotive Builders—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Timber and Taxes—Discussion in current issue of Dean Witter's Review and Analysis—Dean Witter & Co., 14 Wall Street, New York 5, N. Y.

* * *

Aerovox Corporation—Bulletin—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Color Television Incorporated—Bulletin—Hooker & Fay, 315 Montgomery Street, San Francisco 4, Calif.

L. A. Darling Common—Latest information—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Lion Oil Co.—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y.

P. Lorillard Co.—Memorandum—Walston, Hoffman & Goodwin, 35 Wal Street, New York 5, N. Y., and 265 Montgomery Street, San Francisco 4, Calif.

Also available are memoranda on **McDonnell Aircraft Corp.** and **Standard Railway Equipment Manufacturing Co.**

New Calumet Mines Limited—Analysis—Nesbitt, Thomson & Company, Limited, 355 St. James Street, West, Montreal, Que., Canada.

Spencer Chemical Company—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Stromberg-Carlson Company—Analysis—Rogers & Tracy, Inc., 120 South La Salle Street, Chicago 3, Ill.

United Aircraft—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

U. S. Thermo Control—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

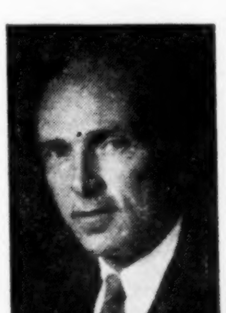
Westeel Products Limited—Analysis—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada and 80 King Street, West, Toronto, Ont., Canada.

Westinghouse Electric Co.—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

NSTA Notes

SECURITIES TRADERS ASSOCIATION OF DETROIT AND MICHIGAN, INC.

A joint meeting of the Board of Directors for 1950, the newly elected directors for 1951, and all past Presidents of The Securities Traders Association of Detroit and Michigan, Inc., was held at the Old Wayne Club at noon Tuesday, Sept. 5, 1950. The meeting was presided over by President Bechtel and the following officers were elected for the coming year:



George J. Elder

Edward J. Miller

George A. Reuter

Harry B. Buckel

President—George J. Elder of George A. McDowell & Co.
Vice-Presiden—Edward Miller of Andrew C. Reid & Co.
Treasurer—George Reuter of Baker, Simonds & Co.
Secretary—Harry B. Buckel of Manley, Bennett & Co.
Chairman of the Membership Committee—Herbert Schollenberger of Campbell, McCarty & Co.
Chairman of the Program Committee—Harry A. McDonald, Jr., of McDonald, Moore & Co.
Chairman of the Arbitration and Ethics Committee—Charles E. Bechtel of Watling, Lerchen & Co.

A very enjoyable lunch was served and congratulations were generously extended to H. Russell Hastings who has been nominated First Vice-President of the National Security Traders Association of which the association is an affiliate.

AD LIBBING

Next week we will all be together at Virginia Beach for our

Continued on page 16

THIS PICTURE SHOWS WAYS IN WHICH GM SERVES TRANSPORTATION WITH THRIFTY POWER

GM's Allison Turbo-Prop and Turbo-Jet Engines
—power new U. S. military planes.

GM Diesel-Powered Ship
—example of Diesel power on larger seagoing vessels.

GM Diesel-Powered Fishing Boat
—typical of the maritime workhorses run on Diesel power.

GM Diesel Coach
—a familiar sight on city streets and highways.

GM Diesel Switching Locomotive
—workhorse of the yards.

GM Diesel Locomotive
—for all services on American railroads.

New Chevrolet Truck
—83 models, 10 wheelbases. A truck for every hauling need.

New Diesel-Powered GMC Truck-Tractor
—lightest Diesel ever put to work in heavy-duty trucking.

Hear HENRY J. TAYLOR on the air every Monday evening over the ABC Network, coast to coast.

Key to thrifty hauling

In the transportation field, General Motors seeks to develop the right power for the purpose.

Thus you will find trucks built for certain types of service benefiting by GM's betterment of gasoline engines, while in other trucks you will find the latest version of the GM two-cycle Diesel engine.

GM Diesel power has also made its contribution to the railroads—to ships built for many duties—as well as to trucks and coaches.

Even in the air, GM's search for better power has produced, in addition to the Turbo-Jets, a new Turbo-Prop aircraft engine, with a record low weight-to-horsepower ratio.

So the research, engineering and production skills which contribute value to passenger cars are likewise the key to steadily better motive power on the land, sea or in the air.

"MORE AND BETTER THINGS FOR MORE PEOPLE"

The Key to a General Motors Car
Your Key to Greater Value

GENERAL MOTORS

GM DIESEL • ELECTRO-MOTIVE • GMC TRUCK & COACH • ALLISON AIRCRAFT ENGINES • CHEVROLET • PONTIAC • OLDSMOBILE • BUICK • CADILLAC • BODY BY FISHER

The Frear Bill

By HARVEY M. SPEAR*
Special Assistant to U. S. Attorney General

Asserting securities of unlisted corporations present serious problem to investing public, former SEC attorney contends Korean episode magnifies need for regulations contained in Frear Bill. Describes provisions of Frear Bill and says measure is heartily endorsed by most of financial world. Lists large companies affected by the Bill, and decries burdens of compliance with its provisions. Maintains Frear Bill is designed to provide assurances necessary to encourage private investment in industry.

When the North Koreans crossed the 38th parallel on June 25, they set in motion a series of events which have affected our entire economy and all our lives. It would be foolish to remain oblivious of the fact that new problems and responsibilities have been raised by the current warm-war. Some of these new problems and responsibilities will have to take precedence over the projects which we were working on in the pre-Korean days.

Harvey M. Spear

But few of us yet know to what extent and for how long our lives will be affected. If the international picture continues to remain in the same warm-war status for a long period of years, we would be playing into the hands of our enemies if we let ourselves stagnate in terms of economic and political progress. Instead of throwing up our hands in these trying times, we should apply ourselves that much more seriously to whatever problems we have on hand.

One of the very important problems in the field of finance today is that which exists as to so-called "unlisted securities," i.e., securities not listed on a national securities exchange such as the New York Stock Exchange. The securities of many leading corporations are not listed on such an exchange. These corporations are an important segment of the modern corporate financial field. The securities of unlisted corporations present a serious problem to the investing public. As great as the need for the Frear Bill was before the Korean invasion, so is its need magnified today as the investments of the public become very vital for industrial expansion.

In order better to understand the Frear Bill and the need for it, I shall describe the basic provisions of the bill, the effects it would have on the field of finance, and the need for its enactment.

Description of Frear Bill

The Frear Bill (S. 2408) is a very short bill covering only six pages in its original form. It requires virtually all corporations with over 300 shareholders and with over $3,000,000 in assets to register under the Securities Exchange Act of 1934. It is obvious from the face of the bill that the Frear Bill is not a new experiment in government legislation. The bill adds no new controls or regulations to the field of finance.

Securities Exchange Act of 1934

Since the Frear Bill extends the Securities Exchange Act of 1934 to corporations with over 300 shareholders and $3,000,000 in assets, we should refresh ourselves on the basic provisions of the 1934 Act, which incidentally has been successfully administered to the satisfaction of all the financial world for over 16 years.

The Securities Exchange Act as it now exists without the amendments of the Frear Bill requires that corporations listed on any of the national securities exchanges must register with the Securities and Exchange Commission. The registration process is important. It involves the annual filing with the Commission of the basic operational and financial data which the investing public needs in order to understand the workings of its corporation. Thus, the first important feature of the 1934 Act requires that the corporations whose securities are traded over the national exchanges must make available to the public certain basic financial information about their corporation's condition and operations.

A second important feature of the Securities Exchange Act is the set of proxy solicitation rules and regulations which seek to insure that any vote involving the stockholders of the corporation will be handled in a democratic fashion. Again, the cornerstone of the proxy machinery established under SEC rules is that the stockholder must be fully and adequately informed before his vote is solicited. Under the rules the stockholder also must be given the opportunity to vote against or otherwise oppose any plan submitted by management or any special group, again in the long-standing tradition of American democracy.

A third major feature of the 1934 Act is Section 16 which seeks to discourage corporate officers, directors and other insiders from profiting by virtue of their specially favored position behind the scenes. Under Section 16 a corporate insider must account to the corporation for any profit made on the purchase and sale of the corporation's own securities within a period of less than six months. The section does not affect transactions in corporate securities by an insider if he holds them for more than six months, but does impose a liability for the profit if sold in less than that period.

These three major features—i.e., the filing of financial and operational information for public use, the conformance with the democratic proxy machinery, and the discouragement of profiteering by corporate insiders—involve practices which the ethical and scrupulous financiers welcome. One reason why most of the financial world heartily endorses the Frear Bill is that the bill will seriously impair the operations of the unscrupulous and unethical corporate executives and financiers, whose activities compete most harmfully with the honest and upright operations of the leading members of the financial community. In addition, as will be shown later, the unethical practices of many groups whose securities are not yet under the Securities Exchange Act so impair public confidence in investments generally that the entire financial market place suffers.

Extent of Effect of Frear Bill

We have seen the nature of the responsibilities which the proposed Frear Bill would impose upon those corporations which would come under its provisions. Next we should consider just how many corporations would be affected and just how much work would be involved under the requirements of the Securities Exchange Act of 1934 as amended by the proposed Frear Bill.

In 1949 the Securities and Exchange Commission made a study of effect which the proposed Frear Bill would have on corporations in this country. That study revealed that there were 1,118 corporations which did not report at all to Federal or state agencies. In addition to this number, there were some 435 additional companies which did make certain reports to Federal or state agencies but which did not come within the provisions of the Securities Exchange Act of 1934. An additional 192 companies had one or more classes of stock listed on a registered exchange (hence falling under the provisions of the 1934 Act) but these same corporations also had one or more classes of stock unlisted. As to those unlisted securities the corporate management does not have to conform with the proxy regulations.

As of June 30, 1949, there were securities of 2,194 issuers listed on national securities exchanges representing a total market value of $87 billion. It has been estimated that the proposed legislation would extend the protection of the Securities Exchange Act to investors in securities with a total market value of approximately $19 billion, traded at the present time at the rate of approximately $1½ billion per year. Under the Frear Bill, laws now covering 83% of important corporate issues would be extended to cover the remaining 17%.

The corporations affected by the Frear Bill are large and their effect upon the economy is great. The six largest companies, in terms of assets, are shown below.

In discussing the coverage of the Frear Bill, it should be noted that it is not intended to cover corporations the securities of which are held within a single state, even if such companies are engaged in interstate commerce. The Frear Bill amendment to the 1934 Act would also give the SEC the authority to exempt issuers in certain other cases. It should be noted, moreover, that certain types of companies are exempted, for example: banks are to be specifically exempted, as would be mutual insurance companies. Government securities, including those issued or guaranteed by states or political subdivisions thereof, would be exempted.

Burden of Compliance on Corporations Affected

The opponents of the Frear Bill raise all sorts of vague cries against the expense and burdens of compliance with the provisions of the Securities Exchange Act. The burden, however, would be very slight for virtually all the corporations affected. If you will remember, there are three major

Continued on page 34

COMPANY	Assets	Number of Stockholders
Humble Oil & Refining	$861,426,325	11,617
Creole Petroleum Corporation	618,977,000	4,600
Aluminum Company of America	503,606,275	*4,923 †8,864
Great Atlantic & Pacific Tea Co. of America	322,848,969	n.d.
Weyerhauser Timber Company	210,180,106	n.d.
Singer Sewing Machine Company	202,980,063	3,800

*Preferred. †Common. n.d. Not disclosed.

*An address by Mr. Spear delivered at the Annual Meeting of the American Bar Association, Section on Corporation, Banking and Business Law, Washington, D. C., Sept. 19, 1950. Views expressed by Mr. Spear do not necessarily represent the views of the Justice Department or any other government agency.

Missouri Brevities

While unit sales continued their sharp upward trend for the fiscal year ended July 31, 1950, and were the highest ever recorded in the history of **National Bellas Hess, Inc.**, Kansas City, steadily stiffening retail prices lowered the company's dollar volume somewhat below 1949's record high. Net sales for the fiscal year ended July 31, 1950, were $32,099,238 compared with the previous year's record $33,696,757, or a decrease of 4.7%. Profits were affected likewise, by two factors: lower prices, and a lower gross margin of profit. Profits after taxes were $668,546 compared with $1,101,288 for the 1949 year, which were equal to 28 cents and 46 cents per share, respectively. Current assets at July 31, 1950, were $7,998,340, as against current liabilities of $2,052,386.

* * *

Hussman Refrigerator Co., St. Louis, plans the issuance and sale, subject to stockholders' approval on Oct. 6, of $1,600,000 of 4% preferred stock of $100 par value to the Penn Mutual Life Insurance Co. Of the proceeds, $786,520 would be used to retire the present outstanding $2.25 preferred stock and $700,000 to pay for land and construction of a new warehouse. The company also plans at an early date to construct on the new site a general office building which may cost approximately $425,000. The new preferred stock would have no conversion privilege.

* * *

Earnings of $2.21 per share of common stock for the six months ended July 31, 1950, as against $1.55 per common share earned during the corresponding period of 1949 were reported on Sept. 21 by **The May Department Stores Co.** and subsidiaries. Net dollar earnings on the common for the period amounted to $6,438,000, compared with $4,502,000 for the six months ended July 31, 1949. For the 12 months ended July 31, 1950, net earnings were $18,795,000, equal to $6.45 per common share, compared with $17,049,000, equal to $5.91 per share, in the like period of 1949.

* * *

Western Auto Supply Co. (Mo.) announces that sales for the month of August were $16,551,000, against $12,402,000 in the corresponding month of last year. For the eight months ended Aug. 31, 1950, sales totaled $100,098,000, compared with $76,380,000 for the same period in 1949.

* * *

For the 12 months ended July 31, 1950, **St. Joseph Light & Power Co.** reported total operating revenue of $5,513,035 and net income after taxes, interest, etc., of $690,970, or $1.98 per share on the common stock. For the year ended Dec. 31, $5,583,231, $667,982 and $1.90, respectively, were reported.

The common stock of no par value of **Kansas City Power & Light Co.**, which has been traded over-the-counter since it was publicly offered early this year, was listed on the New York and Midwest Stock Exchanges on Sept. 15.

* * *

According to a press report, the probable net income of **Scruggs-Vandervoort - Barney, Inc.** and subsidiaries for the fiscal year ended July 31, 1950, which last May was estimated at approximately 10% under the preceding year, is now expected to show up about the same as the preceding year, which was $1,900,000 or $2.67 per common share. The increase was attributed largely to the sharp rise in consumer buying during July, the final month of the fiscal year. Inventories as at July 31, 1950, are expected to be about 5% in excess of a year ago in dollar volume.

* * *

The board of directors of the **Missouri-Kansas-Texas RR.** on Sept. 14 authorized the payment on Oct. 1, next, of three semi-annual coupons on the 5% adjustment mortgage bonds. This covers the interest due April 1, and Oct. 1, 1945, and April 1, 1946. R. J. Morfa, Chairman of the Board, also announced that the company will purchase more than $9,800,000 worth of rolling stock and equipment during the next six months.

* * *

A long-term contract under which the **Long-Bell Lumber Co.**, Kansas City, and the **Harbor Plywood Corp.**, Hoquiam, Wash., will share the logs produced from a large tract of timber in the upper Lewis River region in Washington, was announced on Sept. 14. The tract, containing approximately 30,000 acres, is the largest privately owned timber holding in that area not previously acquired by a timber user. It contains an estimated one billion feet of high grade old growth fir, hemlock and other species.

Treasury-Federal Reserve Split

By AUBREY G. LANSTON*

President, Aubrey G. Lanston & Co.

Government bond specialist recites background and history of the divergent policies of the Treasury and Federal Reserve with reference to short-term rates and debt management, and states, in light of conditions, it is reasonably clear Federal Reserve has been convinced that higher short-term interest rates are necessary as restraining credit policy. Says break-up in Treasury and Federal Reserve policies is regrettable, since each felt compelled to live up to convictions as to best interest of nation. Concludes protection of purchasing power of dollar is hopelessly entangled with protection of par value of U. S. securities.

The public break between the Secretary of the Treasury and the senior officers of the Federal Reserve System was dramatic and unexpected. The fighting in Korea, the deepening international crisis, the threat of a new world war, and the exigencies of our defense program had been counted upon by most observers to end the feuding. Oddly enough, it was the impact of these things that led to our present and more regrettable situation. Between now and the time at which a satisfactory working relationship between these two important arms of the Government can be resumed the value of your investments, the cost of the funds which you may need to take delivery of your mortgage commitments, the rate to be obtained if you need to repurchase Treasury securities or to purchase other securities, will depend upon how well you can weigh the trend of this inter-agency fight and the terms on which it will be settled.

Aubrey G. Lanston

The Federal Reserve Board approved the action of the New York Federal Reserve Bank in raising its rediscount rate while the Treasury was making its decision on the terms to be set for its September and October refunding. This, as you may know, was the largest single refunding that the Treasury had ever undertaken. When the Treasury was advised of the Board's action it immediately announced the terms of its refunding. The two announcements reached the market simultaneously.

The Federal Reserve's announcement was double-barreled. In addition to approving the increase in the rediscount rate of the New York Bank (which was an indication that the other Federal Reserve Banks would follow suit) the Board stated that it would follow a restraining credit policy with all the powers at its command.

The Treasury's refunding announcement was triple-barreled. Barrel one was the announcement of a rate and term unchanged from those set last May for the June and July maturities. Barrel two was the setting of these terms in the face of an increase in the Federal Reserve rediscount rates and the Board's statement on credit policy. Barrel three was the absence of any other refunding offering—only one type of security limited to a 1¼% coupon for almost $14 billion of maturing debt. Provision was made for a later and temporary lifting of the restrictions applicable to institutional purchases of F and G Savings Bonds but this was hardly fourth-rate news under the circumstances. These announcements might be termed a declaration of independence by the Federal Reserve and a challenging stand-pat decision by the Treasury.

Battle Between Treasury Securities and the Dollar

The first reaction of many was admiration for the Federal Reserve's belated independence of action. This quickly turned, however, into a rather general view that might be described as "a plague on both your houses." A very deep sense of regret has been voiced that the Treasury and the Federal Reserve, agreed as to their major objectives, should find their differences over methods and techniques to be so pronounced as to risk the loss of public confidence in the value of Treasury securities. This risk can be stated somewhat differently, namely, that the public may lose confidence in the value of the dollar and from this lose confidence in Treasury securities as well, unless the inflation spiral were contained. In essence, the differences between the Treasury and the Federal Reserve can be reduced to which of these—Treasury securities or the dollar—represents the chicken and which the egg, but there still would remain the matter of who was to be top boss. For eight years the Treasury has called the tune but for the moment, at least, the Federal Reserve is conducting the orchestra.

What does all of this mean to savings bankers, to other investors, and to the general public? It is difficult to give you an assured answer because the background of these events must be measured, in part, by conjecture. Since, however, the press has reported the matter somewhat briefly, and at times not too accurately, I felt that it might be helpful if I tried to outline the story. I would like to emphasize, however, that it cannot be recited categorically. Only a handful of people know first-hand just how the differences arose or how they seemed to. No one can give a first-hand report of all of the discussions, misunderstandings, difficulties and consequences. But, on the whole, it is possible to piece together a rational and reasonably accurate story and I hope that my version will be helpful to you in making sound investment decisions during this confusing period.

As you know the Federal Reserve subservience to the Treasury began with World War II. You also know that in the post-war era the continued subservience of the Federal Reserve was considerably less willing than had been the case during the war. Differences on the methods and techniques to be used, to reach agreed objectives, became far more clear-cut. Nevertheless, there was little question in the mind of the general public or of investors in Treasury securities as to which would dominate. The Treasury continued to sit solidly in the saddle. In hearings conducted last year by a Congressional sub-committee headed by Senator Paul H. Douglas of Illinois, we witnessed something of a blowoff and a pretty good airing of the problems and differences involved. You will recall that this sub-committee concluded that the Treasury debt should be financed at the lowest possible cost commensurate with the maintenance of desirable credit conditions, but it recommended the issuance by Congress of a directive that would inform the Treasury and the Federal Reserve that the latter had the primary responsibility for the management of money and credit. Had such a directive been issued it would have reversed the relationship between the Federal Reserve and the Treasury. The Federal Reserve would have been placed in a position to veto Treasury debt management decisions and the Treasury would have been denied a veto of Federal Reserve credit policy. In essence, the Joint Committee on the Economic Report brushed off this recommendation with the suggestion that the matter be subjected to further study.

Position of Council of Economic Advisers

The Council of Economic Advisers surprised observers by their keen interest in these matters. They jumped into the fray in no uncertain terms. They challenged the validity of the sub-committee's conclusions. They plummeted hard for easy money at all times, under all circumstances, and they said it was unthinkable for other than the Treasury to occupy the premier position in this alliance.

Federal Reserve officials reacted swiftly to the apparent sentiment of the majority of the Douglas Committee. They seemed to sense that the Committee report would side with the Board to an unexpected degree. As the time arrived for a refunding decision to be made by the Treasury for the maturities due in December, 1949, the Federal Reserve adopted a new tactic. It permitted the open-market rate for Treasury bills to advance to a new post-war high as discussions on these financings began or were in progress. The market smelled a mouse and Treasury certificates were offered freely against a reluctant buying attitude on the part of the Federal at minimum prices. The Secretary of the Treasury, however, did not agree that a higher short-term rate was needed by the then state of business. The announced terms of the refunding offerings produced no change in the rate for Treasury certificates and included a 1⅜% note that was quite a bit longer than the Federal Reserve wished to see issued. The Federal Reserve at this point reversed its attitude toward the bill and certificate market. Where it had been a reluctant buyer it now employed strong-armed buying tactics to bring open-market rates in line with the terms of the Treasury's offerings. The last-minute character of the Federal's reversal toward the market contributed to the necessity for the type of strong-armed buying that was employed.

After this financing was out of the way the tug-of-war waxed furiously behind the scenes with an adequate amount of open-mouth tactics to indicate to the market that the Federal Reserve still favored strongly a higher short-term rate. Shortly afterwards the Federal embarked on large-scale sales of longer-term restricted bonds wherein it actually hit bids with the view of decreasing prices. The initiation of this policy ostensibly was with the Treasury's blessing. This indicates that the Treasury was not pushing toward lower rates in general although it had not agreed to a higher short-term rate in December.

Rates Set on Refunding Operations

By the time the March and April refunding decisions were about to be made, the open-mouth policy of the Federal, with respect to short-term rates, indicated that the Treasury may have been persuaded finally to permit some increase in the short-term pattern. The Secretary did not go along with the Federal, however, as much as the open-mouth policy had indicated. The Treasury's announcement upped the rate for the short-term rate to 1¼% but it made the term 15 and 16 months. It included, however, a five-year 1½% note instead of the hoped for 8-10 year 1¾% bond.

Shortly after this financing was completed the Federal Reserve returned to its goal of firming short-term rates. It protected the new 1¼% issues in a minimum sort of way and the market got the idea that the Federal Reserve did not look with much more favor on the idea of a five-year 1½% note at par or higher than it had on the 1⅜% note. The latter, of course, was now selling at a discount and about ½ point lower in price than was true two months earlier.

That the Treasury was thoroughly cognizant of the Federal's technique was evidenced by the premature date upon which it set the terms for its June and July refundings. This announcement was made on May 5, the afternoon of the first day on which the bid for the new 1½% notes dropped 1/64th below par. An important connotation of the Treasury's reaction was the inclusion of the July refunding with that of June. The rate set by the Treasury was 1¼% for 13 months. In other words the Treasury combated the attempts of the Federal to present it with a *fait accompli* in the way of an uncertain market

Continued on page 38

*An address by Mr. Lanston before the Massachusetts Savings Bank Convention, Portsmouth, N. H., Sept. 16, 1950.

How Shall We Finance Our Arms Program?

Is the Excess Profits Tax the Answer?

In debate with Senator O'Mahoney, George Terborgh, while conceding moral grounds dictate prevention of undeserved gains from defense emergency, nevertheless maintains as impossible the formulation of excess profits or any other tax distinguishing deserved from undeserved gains. Contends excess profits taxation technique discriminates against good management, and is inflationary on the economy. In opposition, Senator O'Mahoney defends the tax as falling on those corporations raising prices, thus being anti-inflationary. Declares it is only practicable way to supply needed revenue, and it justly forces the profiteer to collect for Uncle Sam.

EDITOR'S NOTE: Herewith is a partial transcript of the "American Forum of the Air," of which Theodore Granik is founder and moderator, broadcast over the NBC Network August 26, which was devoted to the question of whether an Excess Profits Tax should be levied in connection with the financing of the nation's arms program. Opposing views on the subject were presented by George Terborgh, Research Director of the Machinery and Allied Products Institute, and Senator Joseph C. O'Mahoney, Democrat, of Wyoming.

Chairman Granik: A fierce Senate debate has broken out over the bill to help pay for increased military spending. The explosion

Sen. J. C. O'Mahoney

George Terborgh

occurred as Senator Joseph C. O'Mahoney of Wyoming and Senator Connally of Texas offered an amendment calling for an 85% levy effective last July 1 on business profits that exceed what they define as normal. They estimate that would yield about $4 billion a year.

But Senator George, Chairman of the tax-framing Finance Committee, told the Senate: "The super-tax on profits would not yield the Treasury a dollar of extra income this year. Instead, corporations would spend money freely to avoid handing it over to the Treasury."

Supporters of the profits levy contend that it would curb, not promote, inflation and would crack down on "profiteers."

So the "American Forum of the Air" today asks, How should we finance the arms program? By emergency devices or by a long-range tax policy? Should we curtail non-essential government expenditures? Should we raise more money by sales or excise taxes? Is the excess profits tax the answer? And what will that mean to each of us?

These are some of the questions we pose to Senator O'Mahoney and to a distinguished economist and business leader, George Terborgh, Director of the Machinery and Allied Products Institute.

Mr. Terborgh, how do you feel about Senator O'Mahoney's proposal for an excess profits tax?

Mr. Terborgh: Mr. Granik, I am in sympathy with the Senator's aims, but I have some very grave reservations about the proposal he has advanced. I think on moral grounds it is undoubtedly true that we should prevent, if possible, all undeserved gains from the defense emergency. I would apply this principle not only to corporations as you do, Senator, but to unincorporated businesses, and not only to capital, but to labor. Unfortunately, nobody has ever devised a satisfactory formula for distinguishing deserved from undeserved gains, and certainly the excess profits tax does not do so. It is full of inequities and it gets worse the longer it is applied. It is repressive of incentive for economy and efficiency, and it is a drag on economic progress. I consider that it is a permissible device under the stress of all-out war when the probability is that it will be in only for two or three years, but in the long pull, such as we now confront, with a defense program that may run for years and years, I think we should stay clear of the excess profits tax unless the armament program expands to something far beyond what we are now led to believe.

Senator O'Mahoney: Well, Mr. Granik, it now seems that we are agreed on this panel tonight, at least that we should tax to raise the revenue to pay for our war effort. I think Mr. Terborgh and I completely agree that we ought to have a pay-as-you-go system. Of course, the excess profits tax which I have proposed does not pretend to raise all the revenue that we have. I do not believe that it is subject to the criticism that Mr. Terborgh has just now made because the proposition which I have submitted to the Senate in company with Senator Connally levies the so-called excess profits tax only upon the top one-fifth of corporate income. Four-fifths of corporate income, therefore, are not taxed under the excess profits tax.

Mr. Terborgh: That isn't quite a correct statement of your own proposition, Senator. You propose to use as a definition of normal income four-fifths of the average income of the past four years. But if the income rises above that, the proportion that is subject to the excess profits tax will exceed one-fifth and may go on very high.

Senator O'Mahoney: Of course, that is correct. I think I can best point this out by this chart, which is a duplicate of the chart that I presented to the Senate of the United States only yesterday. The 80% or the four-fifths line is shown by this mark at which my pencil appears. If you will observe, that area from 1946 to 1949 shows the corporate profits before taxes after the war. This peak back here, which is much lower, shows the height which corporate profits before taxes reached during World War II. We had an excess profits tax then. It will be observed that the war raised corporate profits from $5,400 million in the period 1936 to 1939 to almost $25 billion during the war. That shows how war increases profits.

Base Period Questioned

Mr. Terborgh: Your chart ought to run further back, Senator. You started in the middle of the depression. If you ran back to get a perspective on prosperous periods, you would find that those profits don't look as high. Furthermore, they are not corrected for the shrinking dollar, either.

Senator O'Mahoney: Never before in history did export profits ever approximate anything like $25 billion. We will agree to that.

Mr. Terborgh: Never before in history did any other component of the national income ever approximate what it did in wartime —wages, salaries, family income, or anything else you wish to mention.

Senator O'Mahoney: Quite right. And the income tax on individuals reaches all wages and all salaries. The tax bill which was brought out by the Finance Committee practically restores the war-time income tax upon individuals. There are only two differences. The wartime tax allowed an exemption of only $500. Now we have a $600 exemption. The wartime tax did not allow husband and wife to split their income. The 80th Congress granted that permission. It has not been changed by the Finance Committee bill. Yet that bill proposes to raise $5 billion on individual income taxes and $1,500 million on corporate income taxes, although corporate income is so much greater in this period than it was then, and any adjustment that may be made for shrinking the dollar.

Mr. Terborgh: If you had a chart for individual income you would find that also would be vastly larger in the period to which you are referring.

Senator O'Mahoney: You are quite right, but the percentage of increase has been far greater for corporate profits than for any other element in the economy.

Mr. Terborgh: Since when? If you start with the depression that is perfectly true, but it is not true if you go back in history and compare it with other periods of prosperity.

Senator O'Mahoney: Of course we are dealing within the lifetime of the people now living who will have to pay this tax.

Mr. Terborgh: That is not a fair standard, Senator.

Senator O'Mahoney: They are the people who will fight the war.

Mr. Terborgh: If you want to take a four-year period just preceding the 1936 to 1939 period, you would conclude that profits had increased by an infinite ratio because they were negative in those four years. It means nothing. It means nothing to take a depression and then compare the growth of profits from that starting point to some later period of prosperity.

Senator O'Mahoney: I would say that the period from 1936 to 1939 was not the depression period. It was the recovery period. The depression began in '29.

Mr. Terborgh: Senator, there was an average of more than eight million unemployed during that period.

Senator O'Mahoney: Not quite as much as that. It wasn't prosperity. It wasn't the full employment economy such as we have now, but we now have only two million unemployed. We have a high ratio of income. We have the greatest prosperity that the country ever enjoyed. We are ready to pay the burden of the tax.

Senator O'Mahoney: The profit system must defend itself by spending its profits to serve the country. If it doesn't do that, particularly when we are confronting

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Connecticut Brevities

Taylor & Fenn is liquidating its machine tool business and will concentrate on purchasing iron castings. The company has been producing various types of machine tools since its formation in 1834, but in recent years this business has been unprofitable for Taylor & Fenn. The Company has resumed construction of its new foundry at Windsor and plans to move its operations to the new plant by April, 1951. Construction was begun in 1948 but temporarily halted due to high building costs.

* * *

Hartford-Empire Company has purchased from Rockwell Manufacturing Company its V and O Press Division and its subsidiary Rockwell Packaging Machines, Inc. The V and O Division produces mechanical punch presses, which will supplement the line of automatic high-speed dieing machines made by the Henry & Wright Division. The V and O Division will continue to operate at its present plant at Hudson, N. Y., while the business of Rockwell Packaging Machines will be moved to Hartford-Empire's Standard-Knapp Division at Portland. The purchase, which was made at a cost of about $1,500,000, includes about $1,000,000 of unfilled orders and net current assets of about $750,000. The transaction was financed by a $1,520,000 increase in Hartford-Empire's long-term notes. The old eight-year $3,480,000 loan was replaced with a 10-year loan of $5,100,000.

* * *

Capewell Manufacturing Company has purchased V-Mac Industries of Guilford, manufacturers of pipe threading, cutting and reaming tools. The machinery and production facilities will be moved to Capewell's plant at Hartford.

* * *

Phoenix Insurance Company has announced that it plans to organize a casualty department. Phoenix and its subsidiaries have been one of the largest groups confining their operations to the fire insurance field. The new business will be organized by Edward B. Scott, Jr., formerly with Hartford Accident and Indemnity, who has been elected a Vice-President. The Company does not expect to underwrite any casualty business until sometime in 1951.

* * *

Greenwich Gas Co. has called a meeting of its stockholders for September 28 to amend the provisions of its present preferred stock and to vote on an increase in the number of preferred and common shares. It is planned to eliminate the participating feature of the preferred and to increase the annual dividend rate from $1.25 to $1.50 a share. If the additional stock is approved, holders of each four and one-half shares of preferred would be offered an additional share at $25 and common holders would be offered one share at $10 for each three owned. Proceeds would be used to retire a bank loan of $220,000 and to provide additional working capital. Upon completion of the proposed financing, the directors intend to resume dividends at an annual rate of 72 cents if earnings permit.

* * *

Connecticut Power Company has called a special stockholders' meeting for Sept. 18 to vote on a proposal to issue $10,000,000 First and General Mortgage Bonds. The proceeds are to be used to call the Series A, B and C bonds in the amount of $7,030,000 and for additions to plant and equipment now in process of construction or required through 1952.

* * *

Fafnir Bearing Co. is constructing an addition to its plant in New Britain to provide space needed to relieve congestion at its main plant. The new space is estimated to cost $200,000 and to be completed by January, 1951.

* * *

Stanley Works has announced an agreement to purchase Humason Manufacturing Co. of Forestville, which produces coil springs, flat springs, wire forms and machine screw parts. Stanley plans to operate the new acquisition as a subsidiary.

Meck Industries Stock Issue Oversubscribed

A group of underwriters headed by Otis & Co. on Sept. 19 offered 150,000 shares of common stock (par $1) of John Meck Industries, Inc., at $4 per share. This offering, the first to be offered to the public of Meck shares, was oversubscribed.

The proceeds are to be used to provide additional working capital for expansion of the firm's production.

Meck operates plants at Plymouth, Argos and Peru, Ind., and owns a substantial interest in Scott Radio Laboratories, Inc., Chicago.

The company is engaged in the manufacture and sale of console and table model television receivers, and radio-phonograph-television combinations. The company expects that it may engage in the manufacture and sale of home radio receivers at a later date.

With J. W. Goldsbury

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn.—August Hartlett, Sr. is connected with J. W. Goldsbury Co., 807 Marquette Avenue.

"A Report on United Nations"

By TRYGVE LIE*

Secretary-General of the United Nations

UN executive recounts difficulties of United Nations in achieving peace. Says conflict in Korea is not only most serious world crisis since 1945, but also a threat of third World War unless members of UN make renewed effort for peace. Accuses North Koreans of attempting to overthrow majority decisions of United Nations, and says, since world must have a united and independent Korea, United Nations forces should go beyond 38th parallel. Warns this is no time to despair and urges full support of UN by all member nations.

The lesson that war anywhere in the world is a threat to peace everywhere in the world is not an easy one to learn. We in Norway were given a lesson in April, 1940, when the Nazis invaded our country without warning. You in the United States were given a lesson when the Japanese attacked Pearl Harbor without warning.


Trygve Lie

It is not surprising that the lesson is hard to learn. Science has reduced distances much too drastically and rapidly for society to keep pace. Measured in terms of the time it takes to get there, Chicago is closer to my own City of Oslo today than it was to Springfield—the capital of your own state—little more than 100 years ago.

We have reduced distances in terms of time so drastically that the whole world has been shrunk in a century to the size of the State of Illinois. At the same time we have just as drastically increased our power to destroy the lives and property of our fellowmen. This means that Oslo, Norway, and Chicago, U. S. A., and every other major city in the world will be within range of battle in any great war from now on, and all the people in these cities would also be in danger of total destruction, by atom bombs or worse, in such a war.

In these circumstances it is quite clear that the nations of the world must learn to live peacefully with each other and without war if they are to survive. It is equally clear that they are poorly prepared to do so. They have been used to fighting wars and to living comfortably far apart from each other for thousands of years. Now modern science has suddenly confronted them with the necessity for abolishing war and for living closely together before they have learned how to get on together. If the world is no bigger now than Illinois was a hundred years ago, then the 59 member countries of the United Nations may be thought of as like 59 counties in this State—but each county with its own language, customs, religion and form of government instead of all alike. That is our dilemma.

I put the matter in this way because I want all who are listening to me tonight to understand, in terms of their own lives and their own experience, first, why it is necessary for the United Nations to succeed; and second, why this is so immensely difficult. In the third place, I want to consider with you what the peoples and their governments might be able to do to reduce the chances of failure and increase the chances of success.

The conflict in Korea has confronted the world with its most serious crisis since 1945. Only five years after the end of the last war and the establishment of the United Nations, the prospect of preventing a third world war has been placed in the gravest danger. At the same time, the crisis has placed before the members of the United Nations the necessity of making a great new effort for world peace.

UN No Guarantee of Peace

Let us recall for a moment that the establishment of the United Nations did not, of itself, guarantee peace. The United Nations was created in order to achieve peace: by promoting the peaceful settlement of disputes whenever possible; by taking enforcement action to prevent or suppress a breach of the peace whenever necessary, and, by helping the nations to work together to reduce poverty, hunger and misery in the world, to raise the standards of living and to widen the opportunities for individual advancement and social progress in all parts of the world.

Up to last June 25, when the North Koreans launched their attack, the United Nations had made a good beginning in the work of promoting peaceful settlements of disputes between nations. Together with the specialized agencies, the United Nations had also made a promising start in its economic and social work and in its work for dependent peoples. This was in spite of the fact that from the very first the United Nations was faced with a steadily worsening conflict of power and ideology between the Western nations on the one hand and the Soviet Union and its allies on the other hand.

It is not surprising that in these circumstances the United Nations has had failures. What is surprising is that the United Nations has been able to do so much constructive work. Even during the past year, when the cold war reached its greatest intensity, good work has been accomplished. In my annual report to the members on the work of the Organization this summer I was able to point out 14 major actions of the United Nations during the past 12 months—aside from the action in Korea—which have been or can be of constructive benefit to the world. These include such matters as:

The decision of the General Assembly in favor of the independence of Libya within two years; the independence of the Republic of Indonesia after a three-year effort in which the United Nations played a major role; the renewed effort of the Security Council to settle the dispute over Kashmir between India and Pakistan; the successful maintenance of the armistice regimes between Israel and her neighbors; the part played by the United Nations in the progressive pacification of the northern borders of Greece; the launching of the United Nations expanded program of technical assistance for economic development; the establishment of the United Nations Relief and Works Agency for Palestine refugees in the Near East.

Against these and many other accomplishments of the United Nations must be balanced the major failure so far—the failure to establish the system of collective security envisaged by the United Nations Charter. The main components of this system were to be: first, United Nations armed forces which would be at the disposal of the Security Council at all times for the suppression of breaches of the peace; second, a system of international control for atomic energy and the elimination from national armaments of atomic bombs and all other weapons of mass destruction; and, in the third place, the regulation and reduction of all other armaments with the goal of universal disarmament.

Elements of Collective Security System Lacking

Because of the world tension virtually no progress was made toward agreement on any of these elements of a United Nations collective security system during the past three years.

Thus it was in a world without a collective security system that the fighting in Korea began.

This was not the first armed conflict that had occurred since the United Nations was established. There had been fighting in Palestine between Israel and the Arab countries, in Indonesia between the Dutch and the Indonesians, and in Kashmir between the Pakistani and the Indians.

In all these cases the United Nations intervened and by peaceful methods of persuasion was able to stop the fighting and to promote peaceful settlement of the disputes.

In the other two areas of most widespread armed conflict since 1945, the civil wars in China and French Indo-China, the United Nations has not stepped in.

The case of Korea differs from the other cases of armed conflict in several ways. In the first place it is more directly involved in the Great Power conflict over the peace settlements of the last war. The 38th Parallel exists as a boundary line between North and South Korea only because Soviet forces were responsible for taking the surrender of Japanese troops in Korea north of that line and United States forces south of the line. The military occupation that followed was supposed to bring unification of Korea but did not, because the two Great Powers could not agree. A five-year trusteeship prior to independence had, in fact, been agreed upon in principle but was never carried out.

Then in 1947 the United States asked the United Nations to take over. The history of United Nations action in Korea is the second reason why Korea differs from the other cases of armed conflict that have confronted the United Nations. For two and a half years the United Nations tried to bring about the peaceful unification of Korea under a government freely chosen by all the people of Korea. It failed because the North Koreans refused to negotiate, refused to permit the United Nations Commission even to cross the 38th Parallel and refused to accept the recommendations adopted by overwhelming votes in the United Nations General Assembly. So the United Nations and its Commission went ahead as best they could in the circumstances. Elections were held in South Korea. The government of the Republic of Korea was established there and recognized by the General Assembly as the only lawful government in Korea.

Guilt of North Koreans

Now the North Koreans had the legal right—whatever one may think of the wisdom and morality of their position—to refuse to accept the recommendations of the General Assembly. But they had no right, legal, moral or otherwise, to attempt to overthrow by armed force the majority decisions of the United Nations. Nor did they have the right to attempt to impose their government by force upon all Korea, whether they liked the government in South Korea or not.

The North Korean attack upon South Korea was the most direct challenge to the peaceful aims and purposes of the United Nations. The power of the attack showed how long and carefully prepared it was. The attack came in such overwhelming strength that it almost succeeded in winning the whole country by force of arms within a matter of days.

It would have been disastrous for the United Nations and for the cause of world peace if an act of armed aggression had succeeded in these circumstances. It did not succeed because of the immediate action of the Security Council and the equally prompt intervention of armed forces of the United States, later backed by other members of the United Nations.

The world owes a great debt to the President and people of the United States for the courageous decisions they made between June 25 and June 27 and for the leadership they were able to give in the United Nations as a result of those decisions. The debt has continued to mount up in the weeks that followed—a debt to the American soldiers and sailors and airmen who, by force of circumstances, have had to do most of the fighting so far in Korea. They are fighting for the United Nations under the United Nations flag and their United Nations Commander, General Douglas MacArthur. Their bravery and sacrifice in the face of great odds have saved the day and may at last begin to turn the tide of battle.

From the beginning the United States forces have been joined by units of the armed forces of several other members of the United Nations. Now additional units are joining in the battle or are being recruited for service in Korea. On the basis of the offers already made, it is safe to predict that between 30,000 and 50,000 fighting men will be contributed to the United Nations Armed Forces for service in Korea by other members of the United Nations.

First Step Taken for Enforcement of Peace

Thus, for the first time in the history of the world, the enforcement of peace has been undertaken by a world organization. This has happened in spite of the Great Power deadlock that prevented the creation of the United Nations armed forces contemplated in the Charter. It has happened in response to a recom-

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*An address by Mr. Lie at meeting sponsored by United Nations Association of Chicago, Chicago, Ill., Sept. 8, 1950.

World Bank Progress In Troubled Times

By EUGENE R. BLACK*

President, International Bank for Reconstruction and Development

Asserting World Bank was not founded to be a fair-weather institution, Mr. Black stresses objective of promoting better living conditions and equalizing living standards among nations. Says despite troubled conditions, bank has made substantial progress and its credit has been established. Claims sound and rigid standards of lending have been maintained, and urges Europe and underdeveloped countries formulate properly balanced development programs and strive for fiscal solidarity. Concludes Bank's task is one of hope and progress.

We are all deeply conscious that we are living and working in troubled times. The grave events that have occurred in Korea have already had their repercussions around the world. Yet, it would be a pity if these events were allowed to obscure the importance of those objectives of economic recovery and development, of balanced trade and the unhampered exchange of goods, towards which we have all been pressing so actively.

Eugene R. Black

There are some goals that can never yield high place for very long in the life of any nation or any government. Among these, I think, is the continual improvement of the conditions in which the individual citizen lives out his span. It was primarily to promote that objective that the International Bank was created. And it is the achievement of that goal towards which the energies of the Bank have been directed.

The present tensions throughout the world seem to me to add to, and not detract from, the importance of our task. Of course, should the situation seriously deteriorate the progress we have been making in the direction of orderly economic development may suffer interruption. But short of this eventuality, I am convinced that we can and must press forward along the path we have been following, and indeed that we must press forward at an accelerated pace.

Let me state briefly the reasons prompting me to say this. What is now happening in Korea is not a struggle for a few thousand square miles of land. It is part of a struggle for the hearts and minds of hundreds of millions of people throughout the world.

Perhaps the most powerful single force shaping the course of history in our time is the awakening consciousness of the underprivileged masses of the people, that the conditions of poverty, ill-health and ignorance in which they live are not preordained and their deep conviction that they have a right to the opportunity to earn a better living for themselves and a better future for their children.

For those of us who enjoy the great blessings of freedom, it is often difficult to understand the appeal of an ideology which in practice denies to the individual the right to govern his own destinies. But for those less fortunate, freedom means little when it is freedom only to live out their lives in misery and want. In them, the promise of a millennium, how ill-founded it may be in fact, is bound to find a response; they see in the promise of change at least a hope for betterment.

We must not, and I trust will not, counter the promise of one kind of millennium with the promise of a millennium of another kind. But neither must we be content to sit by and watch the gap widen between the standard of living of the less developed countries and that of the more developed nations, relying on what are to us the obvious advantages of democracy and freedom to offset the tremendous pressures created by that gap. We can relieve those pressures—we can remove one cause of future Koreas—only if we can hold out a real and well-founded hope of improvement in the material well-being of all men which is essential to their dignity and self-respect. This is a long and arduous process—but at the least we ought to be able to give the ordinary man confidence that his conditions of life will grow better over the years and that his children will have greater economic and cultural opportunities than he himself has enjoyed.

Surely, if such a wide gap between standards of living in various parts of the world did not exist today—if during the last hundred years greater effort had been devoted towards improving conditions in the less developed areas of the world (and I include in that most of Eastern Europe)—we might not today be witnessing so much social unrest and possibly not even hostilities. I suggest that it is the existence of widespread poverty and misery which has stimulated the spread of the virus now threatening the peace of the world.

It is no accident that, in establishing the structure of the United Nations, an Economic and Social Council, devoted to improving economic conditions throughout the world, was given its place alongside the Security Council. And it was the same recognition of the importance of economic development to peace and stability which influenced the founders of the International Bank to write into the Bank's charter the long-range function of promoting development as coordinate with its shorter-range, if then more immediate, function of helping the war-ravaged nations to reconstruct their productive facilities.

Bank Has Made Substantial Progress

I think the Bank has made substantial progress towards its objectives during the first four years of its operations. I should like to review with you some of the factors which I think justify us in looking to the future of our institution with confidence.

Up to the present time, we have made loans which total nearly a billion dollars to 17 countries in widely separated parts of the world. We can already begin to see the fruits of these loans; to mention but a few examples, Bank financing is helping to produce steel in Western Europe, to increase timber yield in Eastern Europe, to enable the Indian rail-

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*Address by Mr. Black in presenting the Fifth Annual Report of the International Bank to the Board of Governors, Paris, France, Sept. 8, 1950.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

With the first phase of the refunding out of the way, and not too much disturbance in the money market because of it, there seems to be a better feeling and better tone in the government market. Although it is not generally believed the storm is entirely over, there is, however, a growing feeling that the market as a whole may not be far from a temporary stabilization area, that could turn out to be a more or less permanent one. Scale buying still seems to be very much in order, and on a somewhat expanded basis. The intermediate and longer eligibles are being bought in this fashion with a few more of the tap bonds also finding this way out of the market. This is aside from the Central Bank operations.

The new 13-month note has assumed some prominence in the market, at a price which has attracted outside buying. Despite a less bearish attitude, there is still plenty of caution among operators in the government market, and the feeling of playing it safe and staying short has not been dissipated yet. There are too many uncertainties that have to be resolved for the market to assume its former confidence and equilibrium.

Market Uncertainty Continues

There are still many points of concern in the government market, in spite of signs that certain issues may be close to, if not already at, temporary resistance levels. The ability of the market to rally following sell-offs is not an unfavorable development, but there are still many unknowns which must be cleared up before real solid commitments are likely to be made in volume. Scale buying has been in evidence in somewhat larger amounts in the intermediate-term eligibles, but herein again caution is keeping investors from getting too enthusiastic in their acquisitions.

The longer-term issues, particularly the ineligibles, have been giving evidence of resistance, mainly under official support. If it were not for buying of this type the tap bonds would most likely have given more ground because insurance companies and savings banks are still letting these securities out. The 2½s of September 1967/72 have recovered from the sharp decline which was due in part to a mark-down in quotations and some fall-end institutional liquidation.

Longest Bank Eligible Recommended

Although it is recognized there are many things which cannot be predicted at this time, it is indicated that certain large banking institutions have been advising correspondent banks to make scale commitments in the longest bank bond. These purchases, it is believed, should be spaced at ⅛ of a point intervals for some institutions, while in other instances the ¼ point scale would be more satisfactory. An interest in the 1956 is also being advised for some of the out-of-town banks, but the amount to be purchased is not as sizable as that which is recommended be put in the longest bank obligation.

The longest partials were marked down, more in sympathy with the decline in the September 1967s than from the weight of bonds that came into the market. From reports, it is indicated that buyers of the 1960/65s were not able to get more than a handful of bonds, during the recent price decline. The 2⅞s have been in the market in somewhat increased amounts, but have been pretty well take care of, according to reports.

Federal Provides Prop

Federal's support of the long end of the list, the eligibles as well as the ineligibles (according to reports) seems to have had a favorable psychological effect, at least, upon some operators in the money markets. It is pointed out that the Central Banks would not have stepped in and bought the higher-income obligations if they were interested in having quotations of these securities go lower. On the other hand, this may not be the complete answer to the problem because Federal has stated right along that the market for government securities would be kept orderly. This recent action of the Central Banks in supporting the market could be the carrying of such a policy because buyers have been very few and far between in nearly all of the longer Treasury obligations.

1½% One-Year Paper?

Undoubtedly, it will still be some time before the answer as to what is going to happen to interest rates will be known. While there are more supporters of the opinion that a 1⅜% certificate rate will be the top, unless unforeseen happenings take place, there are nonetheless many shrewd operators who are not discounting the possibilities of a 1½% rate for one-year paper. If the former rate is to be established by Federal for certificates, there are a number of issues, particularly the 1956 maturities, that are about at the right level now. This is no doubt one of the reasons why there has been more interest in these securities recently.

Whether the market has discounted an increase in reserve requirements is anyone's guess, but the feeling seems to be that there is not likely to be a change in the immediate future. It is believed that an upping of reserve requirements would most likely herald the coming of a 1½% certificate rate. Such a development would result in further price adjustments throughout the whole list.

New York City banks have been buyers of the longer issues, some of the taxables as well as the partials. It is reported that most of these purchases were made at attractive prices in the recent market weakness.

Dillon, Read Group Offers Cleveland El. Illuminating Co. Bds.

An investment banking group headed by Dillon Read & Co. Inc. is offering for public sale today (Sept. 21) a new issue of $25,000,000 Cleveland Electric Illuminating Co. first mortgage 2¾% bonds due Sept. 1, 1985, at 100.787. Proceeds from the sale of the bonds will be used by the company to repay bank loans presently amounting to $8,000,000 and the balance to finance current and proposed property additions. The bonds were awarded to the group at competitive bidding, Tuesday, on its bid of 100.2399.

The new bonds of 1985 series are dated Sept. 1, 1950, and are redeemable at the option of the company as a whole, or in part by lot, at 103.79% if redeemed during the 12 months' period ending Aug. 31, 1951, and thereafter at prices decreasing to 100% if redeemed on or after Sept. 1, 1980.

The Cleveland Electric Illuminating Co. is an operating public utility engaged in the production, transmission, distribution and sale of electric energy in Cleveland, Ohio, and in adjacent industrial, suburban and rural territory in northeastern Ohio extending nearly 100 miles along the south shore of Lake Erie.

The company currently serves approximately 410,000 electric customers compared to 310,000 and 245,000 at year-ends 1935 and 1925, respectively. The corresponding numbers of residential customers are 360,000 currently and 275,000 and 215,000 at year-ends 1935 and 1925, respectively. Large light and power customers (having a demand of 50 kilowatts or more) numbered 1,538 at June 30, 1950.

With Pacific Northwest

(Special to THE FINANCIAL CHRONICLE)

TACOMA, Wash. — James H. Wiborg is with Pacific Northwest Co., W. R. Rust Bldg.

With Scott, Horner

(Special to THE FINANCIAL CHRONICLE)

DANVILLE, Va. — Robert B. Wooding is with Scott, Horner & Mason, Inc., of Lynchburg.

With McKee & Jaeckels

(Special to THE FINANCIAL CHRONICLE)

APPLETON, Wis.—Robert L. Tilley is with McKee & Jaeckels, Inc., Irving Zuelke Bldg.

Current Investment Problems of Savings Banks

By AUGUST IHLEFELD*
President, Savings Banks Trust Co.

Mr. Ihlefeld lists as effects of limited war economy on savings banks: (1) resumption of upward trend in savings; (2) reduction in supply of new mortgages; (3) stagnation in supply of corporate and tax-exempt obligations; and (4) increase in government bond holdings, as result of new Treasury long-term offerings. Looks for narrowing of margin of savings banks earnings over expenses and dividend payments.

Our country is now involved in war on a limited scale, but of indefinite duration, to resist Communist aggression. This is not an all-out war between major powers, as were World Wars I and II. The thesis that war with Soviet Russia is inevitable is not subscribed to by the Administration nor by many responsible political spokesmen of this nation. Nevertheless, we must mobilize our productive strength to rearm ourselves and other nations to deter further aggression and so safeguard international security.

August Ihlefeld

This is a new experience for the United States, although an old one for European powers. We have never before had to keep ourselves in constant readiness for all-out war with a major power, since hitherto other friendly nations like Great Britain and France have had the strength to play a major role in keeping the peace against would-be aggressors. Because we face drastically changed conditions not encountered before, a fundamental readjustment in our economic thinking is necessary.

Until the Communist invasion of South Korea clouded the hope that the free and the Communist worlds would settle their differences in a peaceful way, our Federal Government was spending less than $20 billion—around 7% of our gross national product—on national defense and foreign aid. Already, such expenditures are scheduled to increase to some $36 billion for this year. This is 13% of our present gross national product. The President has said we will double the size of our armed forces, and will provide large-scale assistance toward European rearmament. Who can say how much, and for how long a period, further expansion of military spending will be necessary to contain permanently the menace of enemy aggressors?

The enormous increase in government military spending assures a high level of production for an indefinite period. There is very little likelihood of a business recession under these conditions. Our productive capacity is due for further expansion. But even so there is bound to be some diversion of productive capacity from home building and the manufacture of consumer durable goods. It is to be expected therefore, that new backlogs of demand for peacetime goods and services will develop which can sustain production at a high level even after military spending is again reduced.

Effect on Mutual Savings Banks

Mutual savings banks, like other major segments of our national economy, will be affected by a limited war economy, which we may have to endure for a protracted period.

Before the Korean war, mutual savings banks found in real estate mortgages the main answer to their investment problem. With home building going forward at a much faster pace than ever before, mortgage loans were relatively plentiful. Despite the unprecedented expansion of mortgage debt, certain safety factors were accepted as reasonable protection against deterioration of its quality. Also, insurance and guarantee of mortgages by Federal agencies provided a way to lessen further the risks incurred by lenders. In fact, the chief cause of concern was whether other suitable investments could be found after the building boom would have run its course and the supply of new mortgages declined.

Now the whole investment problem must be reappraised. Will savings bank deposits continue to increase so that we will have much of a current investment problem? How will the supply of new mortgages and corporate investments available to us be affected? Will savings banks again be called upon to buy government securities in substantial volume, as during World War II?

These are the basic questions that I will discuss.

The Outlook for Savings

Savings deposits have declined all over the country since the outbreak of the Korean war.

This is far from surprising. There has been a rush to buy goods that people fear will be in short supply, or will rise substantially in price. At the peak of the buying rush, department store sales were 46% larger than in the corresponding week of the year before. Savings have been drawn upon to supplement current income in paying for these abnormally large purchases.

The buying rush has now largely subsided. Actual consumption of goods is not materially larger, so that it is unlikely that any such buying spree will be sustained. It is not reasonable to suppose, therefore, that the decline in savings deposits in July, August and in the first part of the current month typifies the effect of war in its present scope upon the future deposit trend. It is not likely that the savings deposit decline of 1941, marking the commencement of a total war economy, will be duplicated so long as we remain on a limited war footing.

To appraise the deposit outlook, we must weigh the fundamental forces that will affect the trend of savings deposits, without stressing unduly the deposit drop of the past few months. National income is rising as employment expands and many concerns grant wage increases. Taxes are being increased also, but it is probable that disposable income—what is left after taxes — will register gains.

Disposable income of the American people is divided between consumption expenditures and savings. When spending increases, savings perforce decline.

Consumption spending has jumped since the Korean war began, as we have seen. But that initial buying and hoarding spree was only a temporary reaction to a new war. Rising prices enlarge consumer expenditures. On the other hand, restrictions on consumer and real estate construction credit and reduced production of many durable goods will cut down spending. Few expect that the volume of home building and automobile production next year will equal the record level of 1950, even though the decline may not be as great as was feared earlier.

Disposable income can be expected to increase as production and employment expand. An increase in disposable income without a corresponding expansion of consumer expenditures would mean some increase in the volume of savings. We cannot expect, however, anything like the spectacular increase in savings that occurred during World War II, when national income soared while the supply of many civilian goods was drastically reduced or cut off entirely. The more that a pay-as-we-go policy of stepped up taxes is adopted the more it will tend to keep expansion of disposable income in check. Since we are in a limited rather than a total war, the supply of consumer goods should not suffer drastic curtailment. For example, the automobile industry now speaks of a cut of 10 to 25% in auto output next year from the record level of 1950—not complete cessation of civilian automobile manufacture such as occurred during World War II. All in all, the prospect is for a moderate increase in the rate of savings after the initial hoarding and forward buying spree on the part of the public will have come to an end, limitations on the output of consumer goods and heavier taxes notwithstanding.

The Trend of Savings Deposits

Will mutual savings banks continue to receive about 7% of the liquid savings of the American people, as has been the case since the end of World War II, or will their share decline or increase? That is the $64 question which confronts mutual savings bankers in appraising the impact of a limited war economy upon the trend of their deposits.

We know that mutual savings banks offer depositors an extraordinarily high degree of safety and liquidity, and efficient service. The rate of return paid on deposits—2%—is relatively attractive. Mutual savings banks have enjoyed in recent years a strong competitive position in the thrift field.

Mutual savings banks, like all thrift institutions, could be adversely affected by the public's fear of inflation. The burnt child fears the flame. Having seen the cost of living rise 70% between 1939 and 1949, the public knows that the purchasing power of savings can be cut severely when the Government finances huge wartime requirements in a manner that inflates the money supply.

Should the public at large come to believe that inflation is unavoidable, there would be some danger that savings habits would change, that a larger percentage of total savings would go into equities or real estate, and that all thrift institutions would receive a small percentage of total liquid savings.

Given peace, I believe that expansion of the volume of production in this country would be great enough to keep the purchasing power of the dollar reasonably stable, even if the Government operates at a moderate deficit. But this is not peace, and what we have hitherto regarded as an era of peace is not in sight.

It would be a mistake even so to conclude that greatly increased military expenditures necessarily mean a major and protracted inflation. The American public has had its fill of inflation resulting from two world wars. The people have at last awakened to the need for protecting the purchasing power of their savings and liquid resources.

Since the Korean war, we have witnessed an impressive revulsion of feeling against further inflation. We have seen Congress enact sweeping tax increases, and lay the basis for new tax measures, despite the imminence of national elections. We have seen drastic credit and other curbs authorized to curtail buying so as to hold down prices. We have seen the Federal Reserve authorities insist upon a firming of short-term interest rates in the face of Treasury opposition.

Inflation in this country can be prevented, even in a limited war economy, by expanding production, by raising taxes, by curtailing non-essential spending, and by Government financing of its deficits through the sale of Treasury securities to buyers other than commercial banks. It is too soon to be sure whether these measures will be applied on an adequate scale. But public opinion, so long indifferent to the inflation threat, is finally aroused. And the revulsion of popular sentiment against further inflation is the best reason for hoping that this threat to thrift and personal security will be overcome. Once confidence in the long-term stability of the dollar has been restored, there would be no reason for concern about the future trend of savings deposits.

The Investment Problem

The magnitude of the investment problem that will face mutual savings banks in the period ahead will be affected importantly, not only by the trend of deposits, but also by the volume of mortgage amortization payments.

As the mortgage portfolio has expanded, annual amortization payments have increased correspondingly. This is not much of a problem when the volume of mortgage loans increases rapidly. But with a decline in the volume of new mortgage lending, heavy amortization payments on loans made previously will add to the volume of funds for which savings banks must find investment outlets.

The Supply of Mortgages

Surveying the prospective supply of investments for mutual savings banks, we find that a contraction in the volume of available mortgages appears inevitable in this limited war economy. Liberalization of mortgage insurance and guarantees gave a powerful stimulus to home building earlier this year. President Truman has already directed the Government agencies concerned to tighten mortgage insurance and guarantee terms. Much more drastic restrictions on mortgage lending are provided for in the Defense Production Act of 1950.

New construction is also discouraged by reduced supplies for civilian use of many of the materials that enter into home construction. Higher building costs, and the likelihood that labor shortages may develop in areas where building workers are absorbed into the defense effort, will also have a limiting effect on the volume of home construction.

Demand for mortgages from lending institutions is going to be sustained, however, so that there will be keen competition for available mortgages.

Under these conditions of a lessened supply and sustained demand, mutual savings banks face the prospect of a slackening before long in the rate of gain of their mortgage portfolios. The successive net increases of around $100 million a month in mortgage holdings reported earlier this year could not be maintained under

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*Address by Mr. Ihlefeld at the Annual Meeting of Group V of the Savings Banks Association of New York State, Brooklyn, N. Y., Sept. 20, 1950.

International Gold Markets Post-Korea

By DR. FRANZ PICK
International Monetary Economist

Gold authority reports sharp decline in international gold trading since the "Korea Boom." Asserts speculators in the United States, Europe and Far East seem more interested in wool, rubber, grains, fats, non-ferrous metals and diamonds, than in gold. Predicts when these commodities become speculatively less attractive, gold purchases will resume their rise.

The international gold panic which started with the outbreak of the Korean war, has definitely lost momentum after the middle of August. Many gold dealers in the Far East, the Near Orient, Paris, Amsterdam, and also in the Western Hemisphere, reported that the speculative interest in the yellow metal continued its decline since Aug. 14 into the first half of September.

Franz Pick

"Temporary investments in Singapore's rubber market, in Australian wool contracts, in Pakistan's jute, American soya bean contracts, as well as in copper, lead and platinum, attracted substantial funds from all over the world. Dealers and speculators from Hongkong to Paris, and from Buenos Aires to Mexico City, deemed it safe to switch from gold to commodities or metals. According to recent reports, they eventually plan to return to the protective investment in gold, but do not think that the right time for such a re-investment in the yellow metal has arrived yet.

The August Decline

Free trading of gold in all international markets declined about 27% during August.

1950	Approximate Sales in U. S. Dollars
January	65,000,000
February	80,000,000
March	70,000,000
April	100,000,000
May	60,000 000
June	80 000,000
July	130,000,000
August	95,000,000

During the first two weeks of September, further declines of gold sales were reported from all important trading centers.

Official United States gold losses, which reached $450 million during the eight weeks following the outbreak of the Korean war, left public opinion in this country completely indifferent. Gold traders, here and abroad, do not attach any "dollar importance" to such official gold movements. Free market transactions of the yellow metal continued with moderate volume. Demand for "gold dust" was small, very few purchases were reported at $40.00 to $40.50 against $42.50 an ounce, at the end of July. Double Eagles declined during the last six weeks from $42.75 to $41.00 and Sovereigns offered at $11.50 found buyers at $11.00 only. Small gold bars could be bought at $39.00 against $40.00 six weeks ago. Hoarding purchases of such bars were noticed in Mid-Western and California cities. International Gold transactions in New York gained slightly in volume during the last six weeks. Manhattan dealers sold about 60,000 to 70,000 ounces of Central and South American gold to Amsterdam, Zurich and Paris at prices which varied between $38.00 and $38.50 an ounce, f.o.b. Western Hemisphere airport.

Hoarding activities in Canada slowed down. Offers of bars and coins increased in Montreal and Vancouver. Speculative interest for commodity markets, as well as rumors of an "up valuation" of the Canadian dollar to 100 U. S. cents, reduced gold prices from $39.50 to $38.75 an ounce.

Latin-Americans Commodity Speculations

Central and South America also reported growing interest for commodity speculations and declines in the free market price of the yellow metal. Gold inflow into Montevideo (which, since the Korean war, saw its foreign gold holdings increased by about $30 million) slowed down. Buenos Aires' hoarders, who seemed to have had some advance knowledge of the forthcoming devaluation of their peso, bought about 60,000 ounces of gold at prices between $43 and $44 during August. Since the first two weeks of September, however, substantial amounts of gold were sold at $42.50 and funds resulting from such sales were invested in commodity speculation. Mexico, Uruguay and Venezuela sold coins and small bars to Europe and the Far East. Venezuela also shipped small quantities of bars at $39, cif North Africa.

Europe's gold markets, very active during August, reported slower transactions during the first two weeks of September. Trading centered in Paris, where daily sales averaged over $1,700,000 in August and about $1,250,000 in September. Dealers and speculators took profits and were rather eager to get rid of their stocks in order to buy "faster moving" commodities or metals. Bar gold declined from $45 to $42. French farmers, however, who at present are selling their crops, continued to buy coins. Combined volume of gold transactions in Holland, Belgium and Switzerland remained below $700,000 a day and prices declined from over $40.75 to about $38.75 in Zurich. Russian gold sales were again noticed in Berlin at $43, in Vienna at $42.50 and offers from supposedly Russian sources were reported from Trieste.

African markets also showed a reduction in their gold trading volume. Tangiers' volume, which declined from $5,000,000 in July to $4,000,000 in August, might only reach $2,000,000 to $2,500,000 in September. South Africa supplied most of the metal to Tangiers at $38, against $39.75 in July. Barcelona and Marseilles bought small shipments of gold from the Belgian Congo. Gold transactions in Morocco and in Tunis remained very quiet.

Activity in Asia

Asia's markets showed large activity during the first two weeks of August. Then, many leading speculators in Hongkong and Macao sold most of their stocks of the yellow metal and turned to Singapore's rubber markets, as well as to American commodity exchanges for "new opportunities." Gold transactions in Hongkong, which averaged $7,000,000 a week in August, declined to a weekly average of only $5,000,000 during the first half of September. Prices in the "Crown Colony" declined from $44 at the end of July to $40.75 on Sept. 14. Small offers of Russian gold were noticed in Hongkong, Singapore and Macao. South Africa, the Philippines and European dealers supplied Hongkong with about 75,000 ounces of gold each week in August and only 50,000 ounces a week during the first half of September. India bought small quantities of the metal in Beyrouth and in Saudi Arabia, but in Bombay, Karachi, Teheran, and Tel Aviv, the speculative interest was mostly concentrated on commodities and not on gold.

* * *

International interest undoubtedly will come back to gold, once the inflationary adjustment of commodity prices to the new war expenditure has been accomplished. Then, a rather brisk revival of all gold transactions will take place and carry the free gold price to much higher levels.

Halsey, Stuart & Co. Offers N. Hampshire Electric Co. 3% Bds.

Offering of $3,600,000 first mortgage sinking fund 3% bonds, series A, due 1975 of New Hampshire Electric Co. is being made today (Sept. 21) by Halsey, Stuart & Co. Inc. The bonds are priced at 101.769% and accrued interest.

Net proceeds to be received by the company from the sale of these bonds will be applied to the payment of outstanding promissory notes made for the purpose of financing additions, extensions and improvements to the company's plant equipment and facilities, to retire $380,000 of first mortgage 3½% bonds, series A, due 1963 at $102.75, to retire $1,000,000 of first mortgage 3½% bonds, series B, due 1971 at $104.75, and the balance will be set aside for financing additions, extensions and improvements to plant equipment and facilities.

Regular redemptions may be made at prices ranging from 104.77% to 100%. Sinking fund redemptions run from 101.77% to 100%.

Allison-Williams Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Thomas H. Caley, Jr. is now connected with Allison-Williams Co., Northwestern Bank Building.

COMING EVENTS

In Investment Field

Sept. 22, 1950 (Chicago, Ill.)
Municipal Bond Club of Chicago 14th Annual Field Day at Knollwood Country Club.

Sept. 22, 1950 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Fall Outing at the Long Vue Country Club.

Sept. 26-30, 1950 (Virginia Beach, Va.)
National Security Traders Association Annual Convention at the Cavalier Hotel.

Oct. 12, 1950 (Dallas, Tex.)
Dallas Bond Club Annual Columbus Day Outing at the Northwood Club.

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 8, 1950 (New York City)
New York Security Dealers Association Silver Anniversary Dinner at the Waldorf Astoria Hotel (Starlight Roof)

June 11-14, 1951 (Jasper Park Lodge, Alberta, Canada)
Investment Dealers Association of Canada Annual Convention.

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NSTA Notes

National Convention. Reports of the many standing committees will be made at our National Committee meetings but I feel that a partial report should be presented now to our membership through this medium.

For many years I have had the opportunity of working with many of the "Chronicle" staff. Herb Seibert's secretaries have always been most cooperative with our National Advertising Committee in the following up of the many details necessary for our yearbook and convention issue of the "Chronicle." I need only mention the setting up of our roster with over 3,700 members and 30 affiliates. Many, many thanks to these wonderful ladies. We do appreciate your efforts in our behalf.

And now let us transfer ourselves to the positions of Ed Beck, Hal Murphy, Vince Reilly and Fred Gray. I don't think many would care to call on a trader and solicit an ad for our Convention Number just at a time when the trader has used bad judgment in making a commitment or trading activity has continued at the low. How many of us could take the sudden "no" from an overheated nervous individual you might meet in any office. These fellows (and you have all met them over the period of years we have had such a splendid operating deal with Herb Seibert) show and prove their salesmanship ability as they close practically every ad that makes up our yearbook. You will be amazed when our publication appears. Ads you are certain would not repeat are there. Well Messrs Beck, Reilly, Murphy and Gray just couldn't see your ad cancelled, mister.

Gee, fellows, don't you think you would rather stay on the trading desk and be kind and considerate of these men that have aided us so much financially through their untiring efforts to do more every year. In behalf of the entire National Advertising Committee I extend my best wishes and sincere appreciation to the above mentioned ladies and gentlemen.

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Pershing & Co., 120 Broadway, New York City

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Observations . . .

standing statements as Jebb's above-cited) is set forth in the current issue (Sept. 16) of the "Economist" of London as follows:

"There can be no question now of European prodding and of reluctant American response. On some issues, American military thinking has already far outstripped European plans. . . . If a fear of American half-heartedness has held back anyone in Europe, that excuse has vanished. It is the Americans who now set the pace. . . .

"The three-year defense program, however, is limited (at this stage) to what the Government conceives to be 'physically possible'; it presupposes that assistance from the United States will be sufficient both to provide materials from dollar sources and 'to maintain our economic strength.' . . .

"Nothing that Mr. Attlee or Mr. Gaitskell said during the debate came near to rebutting the impression that the Government's attitude towards the economics of defense is 'business as usual.' There would have to be sacrifices, some degree of hardship, fewer cars and television sets, some diversion of labor and some rise in the cost of living. But nothing is apparently to be done to ease an economy already bursting at the seams. There was no mention of any action to modify the existing commitments on the social services and housing."

French Impotence

Regarding the potentialities of fulfillment of security responsibilities by France, probably the less said the better. As Bertrand de Jouvenel, the distinguished French publicist, summarizes his country's situation—after stating the possibility of France remaining in a weak, insular position, a prey to the enemy—"the reasons for France's present military weakness are of three orders: material, intellectual and moral. . . . France tends to feel it is a weak pawn pushed far ahead of the Anglo-American chess strength."*

Revival of self-help in England and France surely constitutes our very "First-thing-first"!

The low morale existing between our Allies and ourselves in cooperative rearming in this epochal time of crisis is demonstrated in the proceedings of the Foreign Ministers' Conference at the Waldorf-Astoria Hotel in New York City. A sad commentary is it indeed that President Truman is being blamed for having given away his country's trump-card in a poker-game with our friends by announcing prematurely and without any *quid pro quo* that we would send more of our new conscripts to Europe.

Observation of the UN similarly emphasizes the great importance of mending national diplomatic as well as military fences as elements of international persuasion. For an astute Kremlin debater like Vishinsky was certain to show up the weakness in our past Far Eastern policies by specifically citing the inconsistent double-tracking of "a Mr. Acheson versus. Mr. Acheson" on China (with a quite convincing demonstration).

* * *

The head of the World Organization surely seems to lie uneasy between sharpening and lengthening national swords; meanwhile sputtering endless propaganda diatribes.

*"Letter from France—It Explains Why Europe Is Still Unarmed," by Bertrand de Jouvenel; in "Barron's," Sept. 11, 1950.

Mobilize Our Leadership Now!

By MURRAY SHIELDS*

Vice-President and Economist, Bank of the Manhattan Company

Mr. Shields urges, during current crisis, that we place at Government's decision-making helm our really great men and abandon "politics as usual." Advocates creation of Emergency Council composed of leaders in science, military, business and finance. Wants military potential created to win conflict, and contends present productive facilities can achieve this if proper mobilization and guidance are utilized.

Recent events leave no room for doubt in anyone's mind that the world is now confronted with a crisis of unparalleled magnitude.

Murray Shields

All of us had hoped that conflict between Communistic Totalitarianism and Democratic Capitalism could be averted. But two devastating wars and two debilitating depressions have so shaken the world's economic and political foundations as to provide the Communists with what they apparently believe to be an opportunity to dominate the world one way or another. Their conviction is—and it is time for frankness in speaking of these things—that the Democracies have permitted themselves to be seriously weakened by irresponsible financial deficiteering, by punitive taxation against savings and capital, by labor policies which provide an opportunity for the capture of vital unions and by welfare policies which reduce productivity. They assume that we are headed for economic collapse and are so weak militarily that we cannot defend ourselves. Their appraisal is as absurd as was Hitler's when he plunged the world into war but it confronts our Nation with a situation in which the fate of the world for generations to come may well be determined by the actions our government takes, by the attitudes it assumes and by the policies it adopts on a wide range of extremely difficult issues, such as

(1) How we should direct our relations with the UN, with our friends and with the Communist bloc so that we can win the ideological war, win any "limited" or "global" military war which comes and win the ensuing peace.

(2) How our present military resources should be distributed, how rapidly and completely they should be mobilized, the terms and conditions on which they should be committed and the circumstances in which our new weapons should be used.

(3) How we should mobilize the Nation's military resources, where the proper compromise between "business as usual," "politics as usual," "strikes as usual" and "bureaucracy as usual" on the one hand and full mobilization on the other should be set, whether we should use "general" or "specific" controls in order to obtain whatever diversion of our resources to military use is necessary, and how to meet our defense or war costs in such a way as to avoid subjecting the economy to the debilitating distortions of inflation.

(4) How we can manage either a defense or a war effort so that when the emergency is over our society will be intact and we can look forward to a peaceful and prosperous future.

These are the really vital questions concerning which our people are genuinely perplexed. The answers are not clear—yet it is obivous that we must chart our course with all of the foresight and statesmanship we possess.

An Emergency Council Needed

Is it not imperative, therefore, that we muster into the decision-making group at the helm of our government a number of our really great men—those of unquestioned distinction, of demonstrated competence and of long experience in the larger affairs of the Nation's life? What the situation may well call for is the creation of an Emergency Council into which could be drawn those men of exceptional scientific, military, business and financial experience and accomplishment on whose counsel the President and Congress can appropriately lean for guidance at a time as this. What a reassuring thing it would be for the President to bring into such a Council men who could inspire the confidence of our friends and command the respect of friend and foe alike. If this were done, I am convinced that we would be justified in taking a confident view of the future, for our resource potential is enormous and needs but to be mobilized to become a powerful instrument for dealing with the crisis with which we are now confronted. There are several reasons why mobilization of our leadership is essential.

(1) We must mobilize our resources of leadership if we are to win the "all out" ideological war which Communism is waging against us, for while our strength-potential for ideological conflict is impressive, it has not yet been made effective.

There is strength in the fact that our economic system provides a far higher standard of living for our people than any Communistic nation ever dared to hope for, that our way of life is one of rewards rather than penalities, of freedom rather than fear, of peace rather than war and of human dignity rather than submersion in a soulless state, and that our political system guarantees more freedom than any other ever devised. We have a solid record of sharing our resources, techniques and possessions with other nations, whereas the reverse is true of Communism. Our renouncement on two occasions of the territorial fruits of victory, our action with respect to Philippine independence and our traditional attitude toward Colonialism make a mockery of the charge that we have imperialistic designs on anybody, anywhere, at any time. There is not an ounce of warmongering in our makeup, in our history or in our policies. The whole world knows that our position is right and that our record is clear.

The foundations on which the Communist ideological position rests are weak rather than strong and it is not true, as some have contended, that they have made all of the successes and we all of the failures. After World War II was finally won, the Communists were offered an opportunity to participate in world organizations such as the UN, the International Bank and the International Fund which could, with the Kremlin's cooperation, have set the stage for peace and prosperity. But the Communists have sabotaged these organizations at every turn. Furthermore, we were prepared to offer vast financial assistance to all of the less developed nations, including those with Communist governments, in order to accelerate the economic development on which their and our progress and prosperity rest. But the Kremlin elected a course which not only prevented its people from having the aid which they so desperately needed after a devastating war, but also bled their standard of living white to build a colossal military machine.

Among other sources of weakness in the Communist position is the fact that the actions of their representatives in the UN have made no friend for them, that the Communist aggression in Korea and their threats of military action elsewhere make their talk of peace seem shallow and insincere and that their actions have solidified sentiment against them and weakened their position in the labor movement of the world. Theirs is not a story of success and history is sure to get the record straight.

The ideological war in which we are engaged is a bitter one in which, despite the fundamental weaknesses of their position, the Communists have, thus far, retained the initiative. We will need to have full mobilization of our resources of leadership, statesmanship and salesmanship if we are to win it but our potential is such that with such mobilization there would be no reason to question the outcome.

We Possess the Military Potential

(2) There is also every reason for confidence that we possess a military potential which, if carefully mobilized, will permit us to win any military conflict which is waged against us. We may not win all of the battles but with proper leadership we shall win the last one, for our potential is tremendous. We and our friends of the Western World have resources in skilled labor which are vastly superior in quality and in numbers to those of the Communists. Our people are better fed, better housed, better paid and have better jobs. We have developed raw material resources, industrial capacity and transportation facilities formidable indeed as compared with those at the disposal of the Communist bloc. In steel, petroleum, the whole range of metal fabricating industries, the basic chemicals and in virtually everything which is vital in wartime, the resource position is overwhelmingly in our favor. Furthermore, we have freer and better research and capacity for technological development far in advance of that of any Communist State. And it is not too much to say that we can produce new capacity so much faster than they can that a decade or a generation from now we can be further ahead of them than we are at present.

Another fact of impressive significance is that this country's military potential is more readily mobilizable than was the case at the start of World War II. Our stockpile of weapons is substantial. We have the world's largest Navy in mothballs, huge supplies of munitions inherited from World War II, a vast number of air, naval and army bases which can quickly be reactivated or rehabilitated, a colossal merchant fleet in reserve, and a not inconsequential stock of some of the new weapons developed late in World War II or since then. Furthermore, many of the arsenals which, during World War II, turned out a flood of war material could readily be put into production so that our expenditures for new productive capacity could be concentrated in the new electronic and anti-submarine devices and the new types of combat weapons without undue strain on the rest of our economy.

Our industrial capacity is substantially larger, more efficient, more widely dispersed and more easily convertible to military production than was the case at the beginning of World War II. U. S. industry has invested in expanded and improved plant and equipment over $100 billion in the past decade—much of it to make effective the great technological advances of recent years. And it is clear that with an increase in hours of work per week, a little more effort to increase production per man-hour and the introduction into the labor force of some of the people in retirement, in the higher grades of our schools and in the home, our national output can be lifted to a level materially above the high point reached in World War II.

With consumers' stocks of automobiles, housing and household equipment as ample as they are after several years of capacity production, it should be possible—without material inconvenience to the people — to divert a colossal volume of production from civilian to war goods.

Our stock of "know-how" is at a new all-time high. Years of higher education have been provided to veterans. Full employment has developed the skills of our workers.

That we have the resource potential there is no reason to doubt, but it is undeniably true that at present the armed power of the Communist bloc is more fully mobilized than is ours. We face, therefore, the imperative need for a major effort to obtain quickly a more even balance of military power and in that task we shall need the guidance of our most qualified citizens. With an Emergency Council, such as has been described here, we should soon be able to present to the world convincing evidence that while we do not want war, the outcome, if we are forced into so bloody, heart-rending and horrible a course, is a forego e co clusion.

(3) We must make full use of all of our resources of economic leadership if we are to eliminate the risk of the great economic collapse the Communists so confidently predict, to assure our people that the powers they grant to their Government in time of emergency will be returned to them, and to insure the nation against financial collapse or ruinous inflation. Our position is basically strong for our standard of personal and corporate financial housekeeping is too high, our financial position too strong, our business policies too sound, our recent expansion too firmly based on increased population and technological progress for us to face anything like a collapse of the 1929-34 intensity. To be sure we can expect fluctuations—and occasionally severe ones—in prices, in markets and in production, and there may be many far-reaching readjustments in our economy but there has been so much solid, sound and imaginative thinking concerning the problem of preventing deep and prolonged depression that the chances are good that with sound leadership we can in fact avoid any economic debacle and can find ways to prevent war from undermining our financial structure or from setting the stage for ruinous inflation.

This inventory of our potential strength provides impressive evidence that if, through such an Emergency Council as has been suggested, we fully mobilize the resources of leadership with which we are blessed, there is good reason to believe that the risk of World War III will be reduced and that the prospect that we shall win the ideological war in which we are engaged or any global military war which is forced upon us will be increased immeasurably.

*An address by Mr. Shields before the Manufacturers Association of Connecticut, Inc., New Haven, Conn., Sept. 12, 1950.

Guns and Butter in Switzerland

By PAUL EINZIG

Dr. Einzig, contending problem of supplying a nation with both guns and butter is by no means inescapable, cites Switzerland as example of reconciling a high standard of living with a high degree of military preparedness. Ascribes this to hard and well organized work of Swiss people, and their cooperation with official economic policy.

LONDON, Eng. — Ever since Goering's notorious statement made some years before the war, that Germany had chosen guns in preference to butter, the idea that nations have to choose either the one or the other has taken deep roots in the minds of the public. It has become a generally accepted conception that a country can only achieve national security by sacrificing its prosperity to the requirements of national defense, and that the alternative is to sacrifice national security by neglecting the defense services in order to be able to raise the standard of living. On the basis of this assumption it would be difficult to escape the conclusion that Totalitarian States are necessarily unavoidably at an immense advantage in comparison with Democracies, because they are in a position to force their peoples to sacrifice butter for the sake of guns, while in democratic countries this is politically impossible. Hitler and Stalin could afford to force their respective subjects to produce the required number of guns without giving them the required ounces of butter; any Democratic President or Prime Minister would commit political suicide if he attempted this at any time except in extreme emergency.

Dr. Paul Einzig

Thus we are confronted with the striking contrast between Totalitarian States armed to their teeth at the cost of accepting a very low standard of living and Democracies with relatively high and rising standards of living achieved at the cost of grossly inadequate defenses. For the sake of the improvement of the living conditions of the masses through higher wages and social services, the latter have exposed themselves to aggression on the part of the former.

A brief visit to Switzerland has led the writer of this article to the conclusion that this conflict between supplying a nation with either guns or with butter and not both is by no means inescapable. The Swiss nation has found a solution which has enabled it to be well provided with guns without having had to sacrifice its supply of butter to that end. This has been done without the glaring lights of propaganda, and for this reason very few people outside Switzerland are aware that this small democratic country has succeeded in reconciling a high standard of living with a high degree of military preparedness. It is not realized that, if war broke out tomorrow in Europe, Switzerland would be in a position to put in the field immediately more fully trained and equipped divisions than either Britain or France or Italy. This in spite of the fact that her population numbers much less than one-tenth of that of either of these three countries.

For a people of about 4,000,000 it is no mean achievement to have some 750,000 of highly trained soldiers and airmen in readiness, with some of the best technical equipment military science has devised. What is more, this has been achieved without lowering the standard of living of the Swiss people since 1945. Indeed Switzerland has not only succeeded in recovering her pre-war standard of living but has even managed to raise it further. While other democratic countries on both sides of the Atlantic have disarmed almost stark naked, Switzerland has maintained her war-time military preparedness, and has even strengthened it in many respects. This does not mean of course that she keeps under arms nearly 20% of her total population. To do so would inevitably mean a sharp reduction of her standard of living. To avoid this Swiss statesmanship has devised the ideal system of national service. There is compulsory military service for all able-bodied men of military age, but the period of initial service is only four months. Thereafter everybody is called up for three weeks a year, in order to maintain and improve the training he received during his initial term of service. This means that a high degree of efficiency is maintained without depriving the national economy of an undue proportion of man power. Care is taken that during the brief periods of the initial service and of the subsequent briefer periods of refresher service no time should be wasted, so that the soldiers can obtain the maximum possible training in the shortest possible time.

There remains, of course, the problem of providing the Army with mechanized equipment and maintaining the elaborate system of formidable fortifications in good condition. This requires considerable diversion of industrial output from civilian to military purposes. How is it that this can be done without thereby causing any shortages of civilian supplies, leading to unduly high prices? The answer is simple. The Swiss people are not only prepared to fight for the freedom of their country, but also to work for it, which requires a much higher degree of patriotism. Wherever one looks in Switzerland one gathers the impression of hard and well-organized work. A nation with such a high standard of living must be strongly tempted to rest on its laurels and take things easy. There is no evidence of such a spirit in Switzerland. There workers believe in giving a full day's work for a full day's pay. Building operations for instance, are proceeding in rain as in fine weather to the limits of possibility. There is an invigorating atmosphere of whole-hearted work everywhere.

The official economic policy is such as to stimulate this productive activity. There is no waste of labor either through large-scale unemployment or through over-employment. Many democratic countries have yet to learn that the latter can be fully as wasteful as the former. Unfortunately, in countries where democracy tends to degenerate into demagogy there is a tendency for politicians to favor over-full employment, which means that there are many more vacant jobs than workers seeking employment. As this state of affairs is very advantageous to the employed they are inclined to support a government which aims at maintaining this state of affairs. The result is that there is no inducement to work hard, for it is only too easy to find alternative employment.

Switzerland evidently knows how to draw the line between democracy and demagogy. While employment is maintained at a high level, there is no demoralizing over-full employment. Indeed a country which depends to a large extent on the production and export of goods requiring highly skilled specialized labor could ill afford the luxury of over-full employment. Where anyone can earn high wages through finding unskilled work at any time, there is bound to be a high degree of reluctance to spend years on learning skilled trades. The result in the long run is a gradual decline in the number of skilled workers and a deterioration of the quality of their output. Thanks to Switzerland's ability of striking a fair balance between large-scale unemployment and over-full employment, there is no evidence of such tendency. Both the quantity and quality of Swiss production is well maintained, and there is consequently enough for military as well as civilian requirements.

Thanks to the realistic attitude of Switzerland in matters of defense as in economic policy, there is at least one country in Western Europe which is in a position to discourage aggression by a display of strength. This example deserves to be better known and to be followed by other democratic countries.

Finds Farm Productivity at Peak

N. Y. Federal Reserve Bank estimates overall increase in farm productivity in past decade has been sufficient to yield 25% expansion of total output. Held highly significant in present international crisis.

Commenting on the nation's agricultural progress and changes in farm productivity in the light of heavy prospective food demands due to the current tense international situation, the September issue of the "Monthly Review of Credit and Business Conditions" of the Federal Reserve Bank of New York gives an optimistic picture of the current and prospective U. S. agricultural situation.

"America's capacity to produce farm commodities is of vital importance during periods of international crisis, when the United States quite literally becomes the 'bread basket of the world'," the article states. "In the Second World War, to meet expanded domestic and foreign requirements, American farmers increased the total of their output by 37% from its 1935-39 average while increasing planted acreage by only 2%, and this despite an 8% decline in farm employment. Among the factors in this expansion were the favorable weather of the early 1940s, the utilization of more farm equipment and fertilizers, improved insecticides, and advanced farming techniques. Technological advance in agriculture had been slowed down markedly during the period of the 1930s, and its rapid development in the Second World War was the direct result of a strong demand and favorable prices that stimulated farm production, and of relatively high farm incomes that made farm improvements possible. The growth of farm productivity was, in large part, a result, as well as a cause, of agricultural prosperity.

"In the light of the current international situation and the prospective reduction in carryover of certain important crops, it is of interest to survey productivity in agriculture with a view to determining the effect of the past decade of prosperity upon agriculture's capacity to produce and to indicating the levels of output that might be expected from the farmers of the nation in the event that an all-out effort were again to be demanded of them.

"The data in the accompanying table indicate the changes that have taken place in output per acre of the most important crops since the immediate prewar period. Again it should be pointed out that favorable weather has helped to improve yields per acre, but it seems probable that most of the improvement between 1939-41 and 1948-50 has resulted from improvements in farming methods and practices directly related to agricultural prosperity.

"The overall increase in farm productivity in the past decade has been sufficient to yield an expansion of total output of 25% between 1939-41 and 1950 on an acreage only 2% greater. At the same time, production per farm worker has increased significantly, since, in the first six months of 1950, agriculture utilized the labor of 13% fewer workers than in 1940. Thus, while utilizing roughly the same acreage and employing fewer people, agriculture in 1950 is providing America's consumers and export markets a far larger volume of food and fibres than in any period prior to the Second World War.

"Explanatory of the improved productivity in agriculture over the last ten years is the greatly increased investment in tractors and other farm implements that has taken place. In 1940, farmers employed 1.5 million tractors; by 1949 the figure was 3.5 million, more than double the 1940 level. While quantitative data on farmers' investment in other types of equipment are not available, it may be inferred from the fourfold increase in the dollar value of farmers' investment in machinery and motor vehicles that the inventory of equipment has kept pace with the increase in tractor holdings.

"In many other ways American agriculture has continued to improve its capacity to produce. Scientific research has made steady progress in the development of new or hybrid products and in the application of technical innovation to the problems of agriculture. New insecticides have reduced sharply the annual toll taken by insects. Further, farmers have taken advantage of the liquid resources and credit available to them to rebuild their soil and to adopt the most modern farming practices. The use of fertilizers, for example, has more than doubled in the last ten years.

"It would be impossible to estimate the level of farm production that might be achieved under an all-out effort should developments within the next few years make such an effort necessary. It is important, however, to keep in mind that farm output in 1950 is being maintained very close to the levels reached during World War II and only moderately below the all-time peak in 1949, despite production restrictions imposed by the Department of Agriculture incident to its price-support program and despite relatively unfavorable weather conditions in some important producing regions. It seems probable that removal of the limitations upon output and encouragement of the widest use of the nation's farm resources would yield a level of total farm output well in excess of anything that has thus far been achieved."

Farm Yields per Acre, 1948-50 Average Compared with 1939-41

Commodity	Output per acre 1939-41	Output per acre 1948-50*	Percentage change 1939-41 to 1948-50
Potatoes (bushel)	129	216	+67
Corn (bushel)	29.6	39.9	+35
Tobacco (pound)	981	1,232	+26
Wheat (bushel)	13.3	16.0	+20
Cotton (pound)	241	287	+19
Soybeans (bushel)	18.4	21.6	+17
Oats (bushel)	31.6	34.6	+ 9

*1950 figures are those indicated by crop condition on Aug. 1. Source: U. S. Department of Agriculture.

"Popular Economics" Makes Its Debut

New periodical designed to familiarize general public with basic American economic concepts. Project made posisble by grant from Alfred P. Sloan Foundation

"Popular Economics," new periodical published by the Institute of Economic Affairs of New York University to familiarize the general public with American economic concepts, will be ready for national distribution on Sept. 25, Dr. Harold O. Voorhis, vice-chancellor and secretary of the University, announced.

The Alfred P. Sloan Foundation has made a substantial grant to the University's Institute of Economic Affairs for the publication of the periodical, which will have ten issues a year. Editorial offices are at 32 Broadway, New York City, and the editorial director is Clayton Hoagland, editorial writer for the New York "Sun" for more than 20 years.

"Popular Economics," according to the vice-chancellor, varies from other economic publications, inasmuch as its material, couched in non-technical language, is directed to the layman who does not have the time and background to profit from reading the more technical economic literature. By combining the features of a home magazine and an educational pamphlet, "Popular Economics," he suggested, will present enjoyable as well as informative material.

Twenty-four of the publication's pages will be devoted to a lead article describing some special phase of the American economy. The remainder will provide stories of American inventiveness, news of new products and such economic developments as currently affect the daily life of every citizen.

Vice-Chancellor Voorhis expressed the belief that "Popular Economics" would afford valuable supplementary reading to students at the high school and college freshman levels, as well as serve as a guide to American economics in the educational programs of industry and labor.

A primary purpose of the periodical, Dr. Voorhis said, is to clarify for the lay reader all the ways and means by which the United States, in providing a healthful economic climate for private enterprise, thrives as a productive country with a rising standard of living for its whole population.

The Institute of Economic Affairs is a department of the University's Graduate School of Arts and Science under Dean Joseph H. Park.

A. E. Bausenbach, Inc.

BUFFALO, N. Y.—A. E. Bausenbach, Incorporated is engaging in a securities business from offices at 19 Allen Street.

Five Years of Federal Squandering

By HON. HARRY F. BYRD*

U. S. Senator from Virginia

Asserting Administration has maneuvered nation into position of being fiscally vulnerable from within as well as militarily vulnerable from without, Sen. Byrd criticizes Federal spending as sacrificing defense aims for socialistic domestic-civilian programs. Points to $40 billion spent in domestic-civilian programs in last five years and calls for putting an end to further socialistic legislation. Says defense should be first consideration.

There have been just five years since World War II ended. They may well go down in history as the most irresponsible five years of the great American Republic, and, unless we begin thinking straight and acting accordingly, they may be recorded as the prelude to the downfall of the greatest democracy of all time.

Harry F. Byrd

To think straight and act accordingly from this point forward, we would do well to analyze the postwar orgy in which we have indulged ourselves, for we are about to find that the adversaries which now confront us are strong and ruthless.

In these five years we have squandered the greatest prosperity ever to come to any nation; the Federal Government has collected far more taxes than ever before; it has spent far more money on purely domestic-civilian programs than ever before; it has spent far more money abroad than ever before; it has spent far more money for defense than ever before without achieving preparedness; and we have failed to curtail the greatest public debt any nation has ever known. In the past 19 years our government has been in the black only 2. We have started deficit spending again in a large way, and it is very possible that our Federal budget may not be balanced before we go over the precipice of financial disaster.

We were forced to go to war in Korea without effective preparation, although we had spent more than $60 billion for national defense in the past five years. Before the invasion, Congress was told that the South Koreans were well trained, well equipped, and well prepared to defend themselves, and later we were told that we did not dare to train them more, or give them effective military equipment for fear they would attack the North Koreans.

We were told that the ECA (Marshall Plan) expenditures abroad are necessary to contain communism and prevent war, but, at the same time, we were told by Administrator Hoffman that the great effect of the foreign give-away program in Korea provoked the communist Koreans into starting a war to hide its benefits.

We unify our armed services, and join the United Nations to work as an integrated national and international team for peace, and, as we send the Marines to do a dirty job of shock troop relief at the war front of our own unified forces under the direction of the United Nations, we call them a bunch of ballyhoo-bedecked policemen.

Our leaders complained that the high cost of defense was depriving socialistic domestic-civilian programs of Federal funds, but now we are saying we didn't spend enough for defense.

How inconsistent can national policy be?

To shift the blame, or conceal it, is a natural and inevitable follow-up to irresponsibility. We thus have what is a very obvious hostility between the two greatest and most vital departments in the Executive Branch of the government. Who is shifting the blame or whose blame is being concealed remains to be seen.

These are some of the things I have in mind when I say we had better start thinking straight and acting accordingly, for I assert without fear of contradiction that the American Democracy—all of the things that make it and all of its beneficence—stands today in the hour of its greatest peril. If we don't recognize it it's because we haven't thought about it, and if we don't know it it's because we haven't been told about it. If we haven't thought about it then our civilization is void of its vaunted intellect. If we aren't told about it then our leadership is criminally delinquent.

We Are Fiscally Vulnerable

We have maneuvered the greatest country, the best form of government and the finest nation of people in the history of the world, into a position where they are fiscally vulnerable from within, and perhaps so greatly extended that they may be militarily vulnerable from without. Neither democracy nor freedom can survive in either the shackles of overwhelming debt or the bondage of military dictatorship.

This, then, is a simple plea for the preservation of freedom in our homes, in our work and our religion. It is a simple plea that we do what we know has to be done—strip off the luxuries of sociological ventures and political bids for votes by spending public money. It is a simple plea that we get down to the sweat and the toil of the work that is required to make this country fiscally sound and militarily impregnable.

Here is the situation into which we have gotten ourselves—the situation which we must overcome if we are not to be overcome.

We have only 6% of the world's population. We have assumed the responsibility for propping up the economy of half the world and defending more than half the countries of the world from military attack by communist dictators who control the other half of the earth.

These are tremendous responsibilities which we have assumed at a time when our national debt is more than a quarter of a trillion dollars—more than any other nation ever dared to conceive, much less assume. Our taxes are already approaching confiscatory levels, and much greater taxation must yet come.

Our only hope to meet the responsibilities we have assumed and to preserve our free way of life lies in the capacity of the free enterprise system to produce in mass quantities those goods, materials and engines of war which are needed under such conditions in better quality and greater quantity than all of our adversaries combined. And there is no reason for us to expect much help from the nations who are associated with us, for they are more wards than allies.

Yet, the President and our leaders are still insisting upon expansion of socialistic legislation—socialized housing, socialized medicine, socialized farming (the Brannan plan)—which, if adopted, will destroy the free enterprise system. This free enterprise system upon which we depend cannot survive in confiscatory taxes or overwhelming debt, or state socialism. What happens to free enterprise under socialism has been demonstrated by the British before our very eyes in these same five years since World War II.

Domestic-Civilian Programs Have Cost $40 Billion

In these five years the Federal government has spent approximately $40 billion for strictly domestic-civilian programs, exclusive of the cost of the interest on the debt, veterans, foreign assistance and defense. Since 1948 we increased our domestic-civilian expenditures by the debt-ridden Federal Government by approximately 75%, exclusive of interest, veterans, foreign assistance and defense. At the same time, during these five years, we thought it was necessary to spend approximately $100 billion to prop up our foreign friends economically and defend them and ourselves militarily—$35 billion in foreign assistance and $65 billion in our defense and in foreign military aid.

Whether our communist adversaries will continue to weaken us by prolonging this series of sideline satellite wars breaking out here and there all over the globe, or whether they will risk committing themselves and their own resources to an all-out third World War, is to be their decision—not ours. Russia has the time table—not us.

Perhaps there is no sadder commentary on the quality of postwar "Yankee shrewdness" at Washington than the fact that we have allowed ourselves to be maneuvered into the shameful position where communistic dictators can call the tunes to which the free people of Christian democracies must dance.

At any rate the end of the sacrifices we must make—in blood, in standards of living, and in hard earned dollars—is not in sight, whether we continue hopping thither and yon to put down sideline wars set off by satellites in remote areas, or whether we are called upon to exert our supreme effort in another world conflagration.

We must do everything it takes to defend ourselves. Our own defense should be as nearly impregnable as possible and should be our first consideration. But, even before we started building our own military defenses, we committed ourselves to military defense of virtually indefensible foreign nations. To defend ourselves in any circumstances, of course, is our duty, and to defend the others in the current circumstances is a responsibility to which we have committed ourselves.

These things the Russians know. Apparently they know it better than we do. And, these things the Russians are exploiting. They are especially exploiting our vulnerable fiscal condition at home, as Russia is waging against us today a war of economic attrition. More than our own military might, the Russians are probably counting on the traditional American reluctance to give up luxuries as usual, business as usual, and politics as usual. In short, they want us to beat ourselves by our own profligacy.

I have been frequently criticized by some of the New Dealers and Fair Dealers for voting with Republicans in the Senate, but I tell you now, as I have said before, the test of my vote in the Senate and my actions elsewhere, now, as they have been in the past, and as they will be in the future, are determined by the test of what I believe in my conscience to be the best for my country. I say with all the sincerity of which I am capable that such must be the test to be applied to everything by everybody in this country—in public office or out—for a long time to come, if we are to restore the peace and freedom for which this nation was founded, and to which it is dedicated.

There is no short cut—there is no easy way; it can't be postponed—it must become a part of us for a long time to come.

1950 Federal Expenditure

Our Federal expenditure budget this year will be between $50 billion and $75 billion, and it will be higher for years to come before it gets lower. Our tax budget must approach the expenditure figure as nearly as possible, and it, too, will be higher for a long time before it gets lower. Our debt, also, will rise for years to come before it gets lower. Add to these the dangers of uncontrolled inflation, and the outlook for the future is gloomy indeed. As awful as these prospects are, they, of course, cannot be compared with the fact that our casualty lists may be expected to grow much greater before they become smaller.

These are the grim facts that we face but have not been told about. Unfortunately, the more gruesome part of the burden we carry must be borne by the fresh young armies, navies and air forces we send abroad. It is not too much to ask the older generation to roll up its sleeves and cast aside its luxury and make the economic sacrifices which are necessary to the preservation of the nation, the form of government and the freedom which was its heritage.

I do not concede that either democracy, or free enterprise, or any other American freedom has run the course of its usefulness in the world. They have been worth fighting for and winning for in the past against both economic and military challenge, and I do not concede that they were any dearer to those who have fought and won before than they are to us today. We shall win again, but not until we begin thinking straight through all the double talk that we hear to the hard core of the problems that confront us; until we recognize the sacrifices we must make; until we see clearly the course we must take; and until we act accordingly.

In all of these, leadership characterized by unselfish and selfless patriotism is the first requirement. We have had it in the past. It is not too much to ask now.

*An address by Sen. Byrd before the National Tax Association, Pittsburgh, Pa., Sept. 13, 1950.

Seidman & Seidman Opens Detroit Branch

Seidman & Seidman, a national firm of certified public accountants, announce the establishing of offices in Detroit, Mich., located in the Penobscot Building. The firm has offices in New York, Chicago, Los Angeles, and other cities, Detroit being its 15th office.

The Seidman firm is celebrating its 40th anniversary this year. The partners and top personnel of the organization meet each year in one of the cities where its offices are located to discuss developments in the accounting and tax fields. This year's meeting will be held in Los Angeles, Calif., during the first week in October.

Herbert E. Scharff Opens

LITTLE NECK, N. Y.—Herbert E. Scharff is engaging in a securities business from offices at 249-16 Fifty-first Avenue. He was formerly associated with Tellier & Co. of New York City as cashier.

Mutual Funds

By ROBERT R. RICH

Parker Demonstrates Value of Management

Almost 25 years ago the holdings of Parker's new-born Incorporated Investors were worth $165,000. Today, all the companies which made up this original portfolio are solvent. None has been through bankruptcy, and with the exception of American Car and Foundry, all of them are operating at a profit. But, although millions of dollars have been plowed back into their plants in improvement and expansion, the value of the securities in the original holdings has increased only $6,000 or less than 4%, including stock dividends, rights, warrants and the like. But, during this same period, $165,000 placed in Incorporated Investors would have been worth, on Sept. 1, $287,000, or an increase of 74%.

Parker tells this story in its current letter, and, to drive home the importance of management, it has listed on one side of its circular, the original holdings of Incorporated Investors, asking the reader to list the order of increase in value. On the other side of the circular, the performance is given. Of the 16 original stocks owned, Incorporated has outperformed all but four.

Affiliated Fund Features Leverage in New Booklet

Affiliated Fund, in one of its new booklets, is featuring the leverage factor obtained by its right to borrow money.

From 1945 to June 1950, the booklet notes, borrowings have averaged about 22% of total assets. On Dec. 31, 1940, borrowings amounted to 44% of total assets, and the ratio increased to 57% on June 30, 1942. All the money then being borrowed was paid off on June 15, 1950.

Since September, 1945, the amount of borrowings of the Fund has been subject to the limitations of the Investment Company Act of 1940, which requires that borrowings not exceed one-third of total assets.

Fully Administered Fund Performance Noted

A comparison of the stock market "averages" with the operations of The Fully Administered Fund shows that on Sept. 14 the market had almost exactly recovered its "Pre-Korean" high, while the asset value of the Group balanced fund increased two cents a share during the period.

The significance of this record is that the Group Securities, Inc. balanced fund in question is conservative in aim and operation, with 25 to 40% of its assets usually invested in defensive securities such as cash, governments and AAA bonds. Hence, the record was achieved almost entirely by the common stock portion of the Fund.

Putnam Fund Shows Diversification in Action

On June 23, the day before the Korean "break," Putnam Fund's shares were $16.61. On Aug. 23, two months later, they were $16.63.

But, as Putnam Fund reports in its "Prudent Investor," these figures measure only the composite or overall performance of the Fund.

To demonstrate how diversification reduces risk, the Fund listed its holding of common stock groups and showed the percentage change of their market values over the same two-month period that the Putnam Fund shares increased two cents in value. On the plus side, rail values were up 12%, aircraft manufacturers were up 17%, and metals and mining were up 11%.

On the minus side, finance companies were down 23%, electric and gas utilities were down 8%.

As the article notes, "It isn't always easy to see in dollars and cents how diversification works, how it uncovers unexpected opportunities which help to offset unplanned for reverses. Yet from time to time, the benefits of diversification become plain and clear and measurable."

Scudder, Stevens Fund Rises by Four Million

Scudder, Stevens & Clark Fund, Inc. reports total net assets of $31,963,304 on Sept. 11, 1950, equal to $53.73 per share on the 594,906 shares outstanding on that date. This compares with total net assets of $27,461,365 on Sept. 12, 1949, equivalent to $49.23 per share on the 557,807 shares then outstanding.

Scudder, Stevens & Clark Common Stock Fund, Inc., reports total net assets of $965,802 on Sept. 11 of this year, equal to $23.85 per share on 40,494 outstanding shares. On Sept. 13, 1949, net assets were $634,300. Adjusting for the two-for-one split of the shares last March, the per share net asset value on Sept. 13 of last year amounted to $22.01.

Canadian Fund Offers Five Million Shares

The Resources of Canada Investment Fund, Ltd., is offering five million common shares, $1 par value, with an initial offering price of $5.49.

The fund invests in the securities of companies which are engaged in the exploitation and development of the natural resources of Canada, with particular reference to those engaged in the development of mineral, natural gas and oil resources.

It is the present policy of the directors that not less than 60% of its assets will be invested in dividend paying securities.

With King Merritt

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn.—Roy M. Kelley has joined the staff of King Merritt & Co., Inc., Pence Building.

J. R. Bragdon Now With Goldman, Sachs

J. Roger Bragdon

(Special to The Financial Chronicle)

BOSTON, Mass. — J. Roger Bragdon has become associated with Goldman, Sachs & Co., 75 Federal Street. He was formerly with the trading department of the Boston office of Blair, Rollins & Co., Inc. and prior thereto was with Coffin & Burr, Incorporated.

Municipal Club of Chicago Outing

CHICAGO, ILL.—The Municipal Bond Club of Chicago will hold its 14th annual field day at the Knollwood Country Club on Friday, Sept. 22. The event will be preceded on Thursday, Sept. 21, by cocktails and a dinner at the Drake Hotel.

To be featured at the outing are golf, with prizes for individual low gross (one for guests and one for members); first low net foursome; individual low net (separate prizes for guests and members) and other awards; horseshoes; soft-ball; and tennis. There will also be a special event under the direction of William Morrison of Harris Trust and Savings Bank.

Reservations may be made with Francis R. Schanck, Jr., Bacon, Whipple & Co. Guest reservation fee will be $25.

Members of the General Committee are:

Thomas W. Evans, Halsey, Stuart & Co., General Chairman.

Arrangements: Francis R. Schanck, Jr., Bacon, Whipple & Co., Chairman; Edward McC. Blair, Wm. Blair & Co.; Gene A. Frantz, Weeden & Co.; Arthur E. Kirtley, First Boston Corp.; Blair A. Phillips, Jr., White Phillips Co., Inc.

Reception: Walter C. Cleave, Blyth & Co., Inc., Chairman; Charles F. Hemenway, The Illinois Co.; James P. Jamieson, Glore, Forgan & Co.

Entertainment: Warren S. Yates, C. F. Childs & Co., Chairman; William J. Corbett, Jr., Martin, Burns & Corbett, Inc.; Walter J. Fitzgerald, Jr., Blunt Ellis & Simmons; Frank B. Hutchinson, McMaster Hutchinson & Co.; Carl H. Ollman, McDougal & Co.

Refreshments: O. H. Heighway, Hornblower & Weeks, Chairman; John N. Faust, Kidder, Peabody & Co.; Paul Stephens, Paine, Webber, Jackson & Curtis.

Golf: Thomas Kevin, Glore, Forgan & Co., Chairman; Paul E. Uhl; Edward V. Vallely, John Nuveen & Co.

Tennis: Paul Hackbert, Shields & Co., Chairman; J. Franklin Buckmore, Boettcher & Co.; De-Witt Davis, Welsh Davis & Co.

Softball: C. J. Robertson, Sills, Fairman & Harris, Inc., Chairman; John W. Allyn, A. C. Allyn & Co.; Eugene C. Travis, Harriman Ripley & Co.

Transportation Walter A. Hintz, McDougal & Condon, Inc., Chairman; James G. Brophy, First of Michigan Corp.; Henry J. Jensen.

Prizes: George J. Bielby, F. S. Moseley & Co., Chairman; Robert R. Harmon, Shields & Co.; Harold H. Spink, Dempsey & Co.

Horseshoes: James S. Barcus, Barcus, Kindred & Co., Chairman; William H. Hammond, Braun, Bosworth & Co.; J. M. Maxwell, Northern Trust Co.

Special Event: William S. Morrison, Jr., Harris Trust & Savings Bank, Chairman; P. Alden Bergquist, First National Bank of Chicago; Andrew D. Buchan, White, Weld & Co.; Raymond V. Condon, B. J. Van Ingen & Co.; Don G. Miehls, Wm. Blair & Co., Lawrence A. Wingader, John Nuveen & Co.

Joins Draper, Sears

(Special to The Financial Chronicle)

BOSTON, MASS.—John C. Larmondra is now affiliated with Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges. Mr. Larmondra was previously with R. H. Johnson & Co. and in the past with Chas. A. Day & Co., Inc.

Keizer Co. Adds

(Special to The Financial Chronicle)

BOSTON, MASS. — Sheldon S. Mann has been added to the staff of Keizer & Co., 19 Congress St.

How to Curb Inflation

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

Federal Reserve Board member points out causes of inflation, its dangers, and means to combat it. Says it is insufficient to tax away excess dollars if they can be replaced through credit expansion. Cites means of restricting credit through discount and open market operations of Federal Reserve and through high margin requirements in stock exchange transactions.

Everywhere the American dollar is a symbol of strength. Inflation reduces the value of the dollar and makes us weak. We can avoid inflation by a well balanced relationship between the dollars we have to spend and the goods on which we can spend them. The scales should be evenly balanced. If there are too many dollars and too few goods, prices go up. That's inflation. Our supply of dollars increased greatly during the last war. We still have a very big supply. Even before Korea there were clear signs of renewed upward pressures on prices. After Korea the need to bring back the balance between dollars and goods is plain. More dollars are being supplied and less goods will become available because a large part of the goods will go to defense. If this gets out of hand it may become ruinous.

M. S. Szymczak

The German inflation after World War I ushered in Hitler. The more recent Chinese inflation paved the way for Communism.

How then can we restore and maintain this balance? We can do it first of all by taking dollars away through taxes. But also we must curb the further growth of credit. It accomplishes nothing to tax dollars out of our pockets if we can replace them with borrowed dollars to be spent on a limited supply of goods.

Credit extended by banks has been sharply expanding. Similarly, borrowing by you and me to buy automobiles and other goods—called consumer credit—has been growing rapidly. Real estate credit has been going up and up for some time now.

Borrowing from the banks creates more and more dollars, whether done by the Government or by you and me. It is important at a time like this that what our Government doesn't get through taxes it borrows not from banks but, so far as possible, from the public and non-banking institutions.

It is likewise important that all of us—business and you and I—curb our private borrowing. As defense requirements take more and more of our production, thus reducing the goods you and I can buy, it becomes increasingly imperative to curb by taxes and by credit terms the dollars flowing onto the scales.

The Federal Reserve System must use the means it has to restrict the growth of borrowed dollars. The general means we have to accomplish this are technically known as open market operations, discount rates, and reserve requirements. They restrain lending by banks.

We may later need additional general means. We have also certain selective means to restrain stock market credit and now also a means to restrict credit on automobiles and household appliances (known as consumer credit). President Truman has taken steps to curb credit expansion for new construction in real estate. These selective means restrain the borrower or the buyer—you and me.

All these means are weapons—to fight inflation—and are as essential as the weapons necessary for the battlefront. You and I don't like to be controlled or regulated. It can be justified only as a protection—a protection for you and for me. To the extent that we are willing to tax ourselves and to restrict our borrowing, we can succeed in large measure in maintaining our economic balance which is synonymous with our well-being.

We must not only strive for balance, which is called economic stability, but we must keep our people employed and we must keep our factories and shops making things we absolutely need in our daily lives, but, above all, making things we must have for our military defense.

*Remarks by Mr. Szymczak in television program "Battle Report-Washington" at NBC studios, Washington, D. C., Sept. 17, 1950.

Continued from page 4

Bank Mergers in New York City

ingly heavy taxes, this ratio is much too low. New York City banks are further handicapped by the high cash reserves which they are required to maintain. As one banker so aptly stated, "Our capital strength is now our weakness."

Question of Deposit-Capital Ratio

If further eliminations are to come, with a concurrent withdrawal by investors of banking capital, how great will this trend be? The overall deposit-capital ratio is now 10 to 1. If the development proceeded further to a point at which the ratio became 12 to 1, a withdrawal of $400 million would be indicated. Deposits of $23 billion would then compare with capital of only $2 billion.

Banking capital is unevenly distributed among these banks. This intensifies the merger trend. The average ratio today of 10 to 1 varies from bank to bank, ranging from a high of 16 to 1 to a low of almost 4 to 1. Banks with the low deposit-capital ratios are those holding "excess" capital. Let us not overlook the fact that deposits have shifted in the last ten years to banks having broad public contact.

This condition is illustrated in the accompanying table which presents the distribution of New York City Clearing House deposits and shows the average percentage of each bank to the total of all Clearing House banks for the years 1940, 1941, 1945, 1949, and six months of 1950. The shift in the relative position of the banks shown in the table is most significant. The blue-ribbon banks have lost ground. The brown derby banks have moved ahead.

Distribution of New York City Clearing House Deposits

Showing Percentage of Each Bank to Total of All Clearing House Banks Based on Average Weekly Net Demand and Time Deposits (Including U. S. Government Deposits)

Average Total Deposits—(000)	1940 $15,122,275	1941 $16,757,052	1945 $25,810,914	1949 $21,881,587	6 Months 1950 $21,949,392
Chase National	19.82	19.98	17.73	17.60	17.83
National City	16.70	16.82	16.42	19.44	19.48
Guaranty Trust	14.70	13.99	12.18	9.90	9.50
Bankers Trust	7.80	7.66	6.26	5.41	5.57
Central Hanover	7.61	7.40	6.54	5.63	5.59
Manufacturers	5.15	5.31	7.53	8.67	8.82
Chemical Bank	4.56	5.14	4.89	5.56	5.54
Irving Trust	4.61	4.46	4.20	4.42	4.27
First National	4.89	4.89	3.71	2.55	2.47
Manhattan	3.95	4.00	4.07	4.39	4.34
J. P. Morgan (†)			2.74	2.56	2.37
New York Trust	3.00	3.03	2.75	2.42	2.61
Corn Exchange	2.18	2.20	2.72	3.18	3.22
Bank of New York	1.53	1.51	1.37	1.50	1.54
Public National	93	.92	1.69	2.08	2.01
Marine Midland Trust	.86	.89	1.08	1.21	1.33
Commercial National	.77	.86	.92	.73	.71
Brooklyn Trust (†) (a)			.89	.92	.95
Continental Bank (b)	.43	.45	.66	--	--
U. S. Trust (†)			.50	.54	.51
Fifth Avenue (c)	.39	.38	.41	--	--
Lawyers Trust (†) (d)			.28	.31	.31
Title Guaranty & Trust (e)	.12	.11	.15	.22	.21
Grace National Bank (‡)			.31	.40	.42
City Bank Farmers (*)				.36	.40
Totals	100.00%	100.00%	100.00%	100.00%	100.00%

(*) Clearing non-member, joined in 1946. (†) Joined in 1943. (‡) Joined in 1944. (a) Merger with Manufacturers subject to stockholder ratification on Oct. 11, 1950. (b) Absorbed by Chemical Bank. (c) Merged with Bank of New York. (d) Absorbed by Bankers Trust, Sept. 14, 1950. (e) Deposit liabilities assumed by Bankers Trust, July 1, 1950.

In many instances, operating results of recent years have not justified the existence of an excess capital position. The decision of certain banks to pay out a larger share of earnings in cash dividends is management's answer to the question — why add to our capital when we can't use it all now?

Managements have responded to the realities of an excess capital position by larger dividend payments. At the same time they know that this excess capital can be used to acquire other banks. They are alerted to the potentialities offered to secure their future competitive position. And this has brought into focus the larger question of tradition versus opportunity.

Will Large Banks Change Scope of Business?

Under the circumstances, managements may ask—are we to remain a blue-ribbon bank continuing to serve our limited clientele, or shall we cross the tracks and become a bank of little business as well as big business? Shall we continue to operate exclusively in the highly competitive Wall Street "jungle," making large loans to few borrowers at cut-throat rates, or shall we broaden our sphere through branch operations and extend our services to the public? In deciding to make these changes, banks find it more advantageous to use their excess capital in the purchase of other banks, thereby acquiring existing facilities, branches, deposits, and experienced personnel.

The public interest would appear to be better served by the present tendency of the larger banks to cultivate the small business field. A variety of economies become possible, making banking services available to the public at a lower cost.

On the other hand, the development has implications which could become undesirable, and already the question has been raised politically whether the trend is leading to a monopolistic situation. Obviously, this is a far-fetched cry when one considers that there are approximately 14,000 commercial banks now operating throughout the United States.

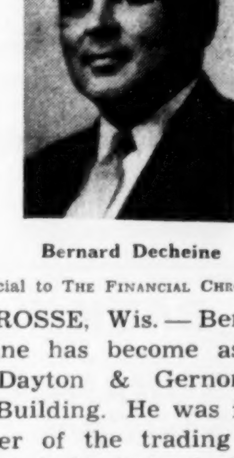
Consolidation of banks continues. The cause is low earning power. The same consideration of the public interest should be the concern of governmental agencies whose policies so vitally affect the earning power of banks.

Discriminatory Reserve Requirements

For example, in New York City the cash reserve requirement imposed upon the banks by the Federal Reserve Board is a discriminatory handicap which suppresses their earning power. Despite their traditionally strong capital ratio and their high degree of liquidity, these 25 central reserve member banks must maintain cash reserves of 22% against their demand deposits whereas the rate is 18% for the 346 banks in the 58 reserve cities. This handicap of four percentage points means that an additional $800 million of the New York City banks' assets are impounded in cash of the Federal Reserve Bank. To you stockholders of New York banks this means that your institutions are deprived of the income of more than $10 million annually.

Let us remember that in our economy, private and institutional investors supply the capital which enables commercial banks to operate as private enterprises. The evidence is clear. Investors will not be attracted to the banking field unless they are assured that the government will recognize bank capital as worthy of its hire.

Bernard L. Decheine With Dayton & Gernon



Bernard Decheine

(Special to THE FINANCIAL CHRONICLE)

LaCROSSE, Wis. — Bernard L. Decheine has become associated with Dayton & Gernon, State Bank Building. He was formerly manager of the trading department of J. M. Dain & Company of Minneapolis.

Shields Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Arthur R. Thompson has been added to the staff of Shields & Company, 510 West Sixth Street.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Within the next two weeks New York City banks will publish their operating statements for the third quarter. The results achieved so far this year have been encouraging, and it is expected that earnings for the current period will also show a favorable comparison.

Business activity has been maintained at a very high level during the past six months with the Federal Reserve Index for July and August reaching over 200. This is the highest rate attained in the postwar period. Moreover, it is in sharp contrast to the conditions existing a little over a year ago.

At that time business inventories were being liquidated, capital expenditure programs reduced, unemployment rising and pessimism about the economic outlook increasing.

Loans to business during this period reflected the prevailing business conditions and showed one of the greatest declines in history. While part of the contraction was seasonal in character, aggressive inventory liquidation on a broad scale was the principal contributing factor and accounted for the abnormal decline.

An important element in this situation was the activity in the nondurable industries. Soft goods were particularly hard hit, and with pressure on prices, many retailers who normally use bank lines to finance inventories, reduced commitments in the expectation of still lower prices.

Around the middle of August the liquidation was completed and business activity increased. The recovery was accompanied by firming prices and rebuilding of retail inventories for the fall and winter season. Loans to business responded to the improved outlook.

The main factor in the business recovery was the high level of activity in the building and automotive industries. The same elements continued to support business through the first half of 1950. Residential construction and automotive output reached record rates during the period.

A considerable part of this business was financed through the use of easy credit. Government sponsored housing projects and consumer credit made it easy to sell the final product, and the high level of activity contributed to the upsurge of business in related and dependent industries.

Since the Korean crisis, there have been additional and intensified demands made on the economy. The prospects of increasing military expenditures and the likelihood of shortages have caused consumers and manufacturers to anticipate their needs. Backlogs have been rising, and with the need to assure adequate labor and material resources, wages and prices have been moving sharply upward.

These developments have been accompanied by an increased demand for business loans. The need for working capital to finance increased inventories has been particularly noticeable since the outbreak of war in Korea.

Business loans were rising before July but have increased rapidly since that time. At New York City banks they have shown increases in each of the past 15 weeks. For the week ended Sept. 13, the rise was one of the largest on record, and the total loans at the weekly reporting member banks are now almost back to the postwar high.

These developments indicate that income from loans will show a good increase for the quarter. There has recently been some tendency for interest rates to firm and this also should contribute to a better showing.

As holdings of government securities are below the total of last year, income from this source may be down. The better yields which have been available may prevent any substantial decline however.

Income from other investments, while not particularly large in relation to the total, will be substantially higher than was the case a year ago. Many banks have been increasing their holdings of nongovernment securities such as municipals. These investments also have a tax advantage.

Current operating expenses are expected to show a moderate increase. Wages and salaries are an important element in operating costs and as there have been some increases in the number of employees as well as increases in pay, this total will be larger. Tax provisions, in view of the current outlook, may be higher. Nevertheless, operating results for the quarter should be favorable.

One factor that could aid earnings, depending upon the accounting used by the individual banks, would be a reduction in the provision for bad debt reserves. Many banks have reached the maximum allowed under the Treasury formula. In such cases, future transfers will represent replacement of loan losses charged against the reserves.

International Fund States Gold Policy

In Annual Report for year ended April 30 reveals its objections to premiums on gold as well as payment of subsidies by gold producing countries. Sees gold output increasing because of recent devaluations.

A chapter headed "Gold Policy" in the Annual Report of the Executive Directors of the International Monetary Fund for the fiscal year ended April 30, explains the position of the institution with regard to the current gold situation, particularly as it affects gold production and free gold markets.

The text of this chapter follows:

The Fund's Gold Policy

On June 18, 1947 the Fund addressed to all its members a letter in which it deprecated international transactions in gold at premium prices and recommended that they take steps to prevent such transactions. During the last three years the Fund has received the support of many of its members in carrying out its gold policy. Several members have consulted the Fund before introducing changes in their gold practices. In spite of the fact that comparatively large quantities of gold have continued to flow into private hoards, the amount thus absorbed would probably have been much larger had Fund members and some non-members not cooperated toward making this policy effective.

At the Fourth Annual Meeting of the Board of Governors, the Governor for the Union of South Africa introduced a resolution to permit members to sell up to one-half of their newly-mined gold in any market at premium prices, provided that the remainder be sold to monetary authorities or to the Fund at the official price. On Sept. 16, 1949 this resolution was referred to the Executive Board for the study of all relevant considerations and report to the Board of Governors. Subsequently the Executive Board instructed the Staff to prepare a draft study for its consideration. After careful examination of the findings of the Staff, the Executive Board concluded that a change in policy under existing circumstances would be undesirable, and recommended to the Board of Governors that the resolution of the Governor for South Africa should not be adopted. The Fund's Report on External Transactions in Gold at Premium Prices was made public on May 3. It is reproduced in Appendix II.

In reaching its decision the Executive Board was of the opinion that, at a time when many countries are faced with large international payments deficits which have to be met by intergovernmental grants and credits, any change in the Fund's gold policy that might divert additional amounts of gold from monetary reserves into private hoards would be undesirable. Moreover, as there exist in many parts of the world markets in which foreign exchange is dealt in at off-parity rates, any extension of premium gold transactions would be likely to encourage a greater volume of such exchange dealings. This would not only be unsatisfactory from the point of view of exchange stability, but would also cause a distortion of the normal pattern of trade that might affect adversely the commercial interests of a number of countries.

The Executive Board also studied the question whether there should be a uniform change in the par values of all member country currencies. In its view there was no economic justification for recommending such a change to the Board of Governors. Some of the arguments for and against a uniform change in par values were outlined in the Annual Report for the year ended April 30, 1949. It may be noted that, since the publication of that Report, exchange rate adjustments in a large part of the world have materially improved the position of many gold-producing countries.

In view of these considerations, it is believed that there is no reason to change the Fund's existing gold policy. It is expected that members will continue their efforts to collaborate with the Fund in making this policy effective. Besides collecting current information regarding production, prices, transactions, markets, controls, and practices in various countries, in order to keep abreast of current developments relating to gold, the Fund continues to examine the economic aspects of gold in relation to the world economy, and to evaluate the practical effects of its gold policy.

During the year under review, Belgium notified the Fund that the arrangement governing the limited internal gold market in Belgium, which was established in June, 1949, had been extended to include the Belgian Congo and Ruanda Urundi. Sales in these markets are limited to Belgian Congo and Ruanda Urundi gold producers, while buyers must be bona fide dentists, industrialists, or goldsmiths residing in Belgium, the Belgian Congo, or Ruanda Urundi. The Reserve Bank of India effected certain domestic gold sales which did not involve any withdrawal from central reserves.

Gold Prices in Free and Black Markets

After placing a ban on all gold transactions in April, 1949, and following some temporary arrangements, the Government in Hong Kong sanctioned gold trading in bars less than .950 fine from July, 1949. The Hong Kong market was active on a declining scale until January, 1950, when the volume of trading became very small. However, there has been a recent revival of activity, though on a much reduced scale compared with 1949. The price of gold in Hong Kong converted into U. S. dollars reached approximately $69 per fine ounce on May 25, 1949, but by May 31, 1950 it had fallen to approximately $37.50, whereas the price for gold dealt in directly in U. S. dollars, for which irregular quotations are available in various trading centers, reached a high of $55 during May, 1949 and was quoted at $36.25 during May, 1950.

The general direction of gold prices in nearly all gold markets has been downward since the summer of 1949. A notable exception is Bombay, where the price has remained stable. Quotations in the Paris market did not follow the general trend until after the devaluations of the autumn of 1949, but by the end of May, 1950 the price of bar gold there was the equivalent of approximately $38.50 per fine ounce.

The decrease in the price of gold on free and black markets was in large part due to several factors affecting the current demand and supply of gold.

The Chinese demand for hoarding, which from 1946 to 1948 was estimated at about three million ounces yearly, disappeared in 1949, and, instead of being the principal importing country for private holding, China became a net exporter of gold.

In several other countries of the Far East and the Middle East there exists a traditional demand for gold hoarding. Inasmuch as such demand is linked with the national income, its amount in terms of dollars was bound to decrease in response to the devaluations of September, 1949. These devaluations and the depreciation of the currencies on free and black markets which preceded them reduced the national income expressed in terms of dollars and consequently the part of that income available for gold purchases.

On the other hand, the current supply of gold seems to have increased as a result of serious leakages into the hoarding market of gold originally destined for industrial and artistic purposes.

The effect on gold prices of such changes in the current demand and supply was amplified by capital transactions. Improved economic conditions in certain countries, such as France or Italy, have increased confidence in the local currencies and reduced the incentive for gold hoarding. The devaluations of September, 1949 have also increased the prospective stability of currencies and have contributed to lessen gold hoarding or to bring about actual dishoarding.

Gold Production

World production of gold (exclusive of the U.S.S.R.) continued to increase during 1949. Valued at $35 per ounce, the estimated total output reached approximately $835 million, compared with $808 million in 1948. Although output has shown a steady increase since 1945, the present annual production is still only about 65% of the peak output of 1940.

The postwar recovery in gold mining has been slow owing to substantial increases in operating costs, including mine labor, supplies, and equipment, which, taken in conjunction with the fixed price of gold, reduced the profitability of gold mining. In many countries, difficulties in recruiting skilled labor have been an important retarding factor. In order to encourage gold production, several countries have sought ways and means of giving assistance to their gold mines. The methods employed have included the reduction of taxes, the payment of subsidies, and the sale of newly-mined gold, in whole or in part, in free markets.

The devaluation of sterling and certain other currencies in September, 1949 brought about a rise in the official price of gold in terms of these currencies. This greatly improved the profit position of gold mining in South Africa and other devaluing countries which together account for about 8_% of world gold output outside the U.S.S.R. The rise in the official price of gold caused by devaluation was greatest in sterling area countries, where it amounted to 44%. In the Belgian Congo it was 14%, and in Canada 10%.

Although the full effects of devaluation on the output of gold will not be apparent for some time, the great improvement in the profit position of the gold mines will probably make possible a steady expansion, even when allowance is made for increases in wages and other operating costs, for higher taxes and smaller subsidies, and for the tendency to lower the average grade of ore milled. Devaluation has also accelerated the development of new mining properties, and the Orange Free State mines now being developed may be expected to come into production in a few years.

Certain gold-producing countries that, after consultation with the Fund, had resorted to the use of gold-mining subsidies, have since the devaluation of September, 1949, either canceled their subsidy payments or decided to reduce the scale of such assistance. Australia and Southern Rhodesia have canceled their gold-mining subsidies, and Canada has notified the Fund that its gold subsidy program has been substantially curtailed.

International Monetary Fund Reports

Camille Gutt, its Chairman, lauds devaluations of last year, but warns they may be nullified by wage and price spirals and other inflationary pressures. Says payment positions of participating nations have improved but have not yet been corrected, and ultimate goal of establishing convertibility of currencies is yet to be achieved. Opposes gold premiums.

In his annual report for the year ended April 30, Camille Gutt, Chairman of the International [illegible]ry Fund, on Sept. 7 called for rigorous anti-inflation policies to carry forward—in the face of new defense spending—the foreign exchange reforms begun with the 1949 devaluations.

Camille Gutt

Mr. Gutt reminded the 49 member countries that the widespread realignments of last fall had provided them with an unusual opportunity for improving their balance of payments while promoting a freer exchange of currencies and expanded levels of multilateral trade. He contended that deficit countries temporarily improved their competitive position in foreign markets by devaluing. Increased receipts of foreign exchange earned with lower export prices should eventually enable them to pay for more imports and reduce their import licensing and exchange restrictions in the process. But whether they could maintain this advantage would depend on the ability of the deficit countries to restrain domestic price rises with effective measures in the fields of bank credit and investment, wages and subsidies and government expenditure and taxation.

"The devaluations have begun to improve the payments situation in all parts of the world," the report stated, but "their full effects have yet to be realized. . . . The measures that must still be taken are no less urgent than at the devaluations."

The Fund's total assets are reported as of the April 30 end of its fiscal year at U. S., $7,918 million. It held gold in the amount of $1,460 million; currencies and non-negotiable securities payable in members' currencies, $5,549 million, and currency balances not yet due on the subscriptions of members that do not have agreed par values, $882 million.

Currencies purchased from the Fund during the past fiscal year brought to the equivalent of U. S. $777,300,000 the total foreign exchange purchased by 19 members from the Fund since the beginning of its operations in March, 1947. The following members purchased a total of $51,800,000 in U. S. dollars during the year with equivalent amounts of their own currencies: Australia, $20,000,000; Brazil, $22,500,000; Ethiopia, $300,000 and Yugoslavia, $9,000,000. Repurchases of their own currencies by members paying gold and U. S. dollars into the Fund were given as $24,209,000 in gold and U. S. dollars up to April 30. Belgium paid $21,600,000; Costa Rica, $[illegible]00,000, and Nicaragua, $500,000. (On July 10, 1950, Egypt paid $8,508,000 in a repurchase of Egyptian pounds.)

The report noted that the 14 members whose par values were depreciated in relation to gold during the past financial year had made the necessary additional payments in their own currencies to the Fund. In addition, one member for which there is no agreed par value, but which had reduced the foreign exchange value of its currency, also arranged for a supplementary payment of its own currency to the Fund, in conformity with the articles of agreement.

Mr. Gutt, in his remarks on monetary policy, said in part: "The devaluations can be only the beginning of a difficult process of which the immediate purpose is to improve dollar payments and the ultimate purpose is to establish convertibility of currencies with a view to extending as widely as possible the multilateral structure of world trade and the most economic allocation of the resources of production. . . . It is the duty of all governments, in both deficit and surplus countries, to see that the financial and trade policies necessary to expand trade and to secure better balance in international payments are put into effect and resolutely maintained. . . .

"The uncertainty whether the countries that have devalued will realize fully the potentialities of their improved competitive position arises from the threat of a recurrence of inflation.

"The danger of inflation will persist as long as government expenditure and private investment continue on the present scale. The continued rise in defense outlay increases the difficulty of securing a net reduction in government expenditure. This is all the more reason for putting into effect promptly, where necessary, a stringent monetary policy and other measures to keep down investment."

The report said that immediately in the wake of devaluation prices had risen for all dollar imports, and for many other imported foods and raw materials in the countries that devalued. This resulted in a "small increase" in the cost of living.

"If the public insists that a rise in prices must be followed by a rise in incomes, costs affecting export prices will also creep up," the Fund said. "And if this attitude is carried to the extreme where every rise in prices must be compensated by a corresponding rise in incomes, the effect of devaluation in reducing dollar export price will be completely lost. A general increase in income can add nothing to the aggregate supply of goods at this time. Its adverse effects on costs would reduce the opportunity to expand exports and to strengthen the payments of the countries that devalued."

Because the devaluations were intended to stimulate greater demand for the exports of devaluing countries, particularly in the dollar area, the report dwells on the need for making larger quantities of these products available for foreign markets. This could be done in the industrial countries by means of increased production, or by cutting down consumption or investment. But neither increased production nor reduced consumption are in prospect to any great extent.

Therefore, "the most hopeful method of freeing labor and materials for increased production of export goods is by reducing investment. Five years after the end of the war it should be possible in most countries of Western Europe to reduce the scale of reconstruction. It will still be necessary to continue normal investment to expand productive facilities and to increase productive efficiency; but if equilibrium in external payments is to be restored, investment cannot be allowed to exceed greatly domestic savings."

For the raw materials countries, also, Mr. Gutt advised moderation in development policies. He said devaluation brought "profound changes" in their economies. The prices of their exports in their own currencies have risen "very substantially," and for the time being, the prices of domestic goods and services have not risen to any great extent. They now have strong inducement to expand production of export goods, but "the continuation of an excessive level of investment would hamper the transfer of resources to the export industries and again distort the relation of home prices to export prices. With a more suitable development policy, "these countries can secure continued economic progress without the hardships entailed by inflation and large payments deficits."

Calls Excessive Investment Inflationary

The report said it was "very questionable" whether the benefits from excessive investment "can offset its social costs in the shape of inflation, lower standards of consumption and misdirection of investment." It conceded, however, that for some of the underdeveloped countries external financing of development was essential. Particularly in Asia and Africa, the Fund said, too much investment in the past two years was financed by inflationary means at home, and by drawing resources from deficit countries in Europe.

"With an appropriate investment program and satisfactory fiscal and monetary policies, some of their development could be financed from home savings without inducing inflation. The import surplus, which these regions will continue to need, must be financed in greater part by the surplus countries of the Western Hemisphere."

With this, the report enlarged on the part that should be played by the United States and other surplus countries in contributing to the restoration of international balance.

"If they provide large and growing markets, if they facilitate imports and capital outflow, the possibility of establishing a strong and well-balanced pattern of international payments will be much greater. Higher incomes in the United States, Canada and other Western Hemisphere countries would assure a demand for imports from all parts of the world greater than at any time since the end of the war. This should now be supplemented by lowered tariffs and the removal of trade preferences and other devices that limit the ability of the surplus countries to achieve a substantial increase in their imports."

In Europe, the over-all effects of the devaluations have been favorable, the report indicated. There has been a reversal of capital movements. In the third quarter of 1949, capital movements and unrecorded transactions involved net payments of $550 million from the rest of the world to the United States. In the fourth quarter of 1949, following the depreciations of September and October, capital movements and unrecorded transactions involved net payments of $100 million from the United States to the rest of the world. At the same time, there was a change in the gold and dollar settlements of European countries with countries other than the United States.

British Position Improved

Changes in the trade of Europe and associated currency areas also have helped to increase Europe's gold and dollar reserves. This has been particularly important in the United Kingdom. Increased earnings by the sterling area from dollar sales of wool, cocoa, rubber and other raw materials helped to produce a considerable net gold and dollar surplus for the sterling area. The United Kingdom's gold and dollar reserves were $1,688 million at the end of 1949 and rose to $2,422 million at the end of June, 1950.

The European devaluations brought about some improvement in the intra-European payments situation, and made possible some easing of intra-European trade restrictions. In a few cases there were local difficulties, notably in Denmark where balance of payments difficulties increased when prices of dollar imports rose, while prices in kroner of Denmark's main exports fell slightly.

The immediate effect of devaluation was to improve the dollar payment position of most of the countries of these regions. They were countries with large deficits, many of them in both dollar and non-dollar payments. The expansion of their dollar exports and contraction of dollar imports has considerably changed their dollar payments position. Even more striking is the change in their non-dollar payments. The large rise in the prices of their export goods and the very moderate rise in prices of the goods they import from Europe have improved their terms of trade. The countries in Asia and Africa that devalued their currencies have nearly all been able to add to their reserves since devaluation.

The coincidence of the timing of the devluations with the recovery in the United States has kept to a minimum any disturbing effect the devaluations might have had on business activity in the United States. This has been helpful, too, in providing a more favorable environment for the expansion of dollar exports by the countries that devalued and for maintaining dollar prices of the raw materials they produce. This also helped other Western Hemisphere countries at a time when their exports to countries that devalued were declining.

Canada's exports to the sterling area and the European continent have suffered from payments difficulties, while Canada's dependence on imports from the United States has been exceptionally great.

The report noted that Latin American countries have suffered varying degrees of inflation since the war and exchange adjustments made by a few of them have been caused more by domestic policies than by the need to conform to devaluations in other regions. There has been some increase, since the devaluations, in Latin American trade with Europe, but devaluations in other raw materials countries at first lowered dollar prices of some commodities produced in Latin America.

"With a moderate rate of economic development, financed by domestic savings and foreign investment, the recurrent inflation and payments difficulties (of Latin America) can be avoided," the Fund said. Meanwhile, with business in the United States and Canada expected to continue to expand, Latin American exports to the United States have favorable prospects.

In connection with the European Payments Union, developed within the Organization for European Economic Cooperation, the report said the text of the agreement had not been completed at the time the report was completed. The following points had been approved as guides for Fund representatives invited to attend the discussions as observers:

(1) The Fund should give its assistance in the formulation of a satisfactory payments arrangement compatible with the purposes of the Fund.

(2) Regional payments arrangements should be so formulated as to facilitate the attainment of convertibility of currencies. Any features which may be likely to foster tendencies toward a closed monetary area should be avoided.

(3) While inflation remains a threat, the element of credit, particularly of long- and medium-term credit, in the settlement of intra-European current balances should be moderate. Settlement in gold or dollars should be increased now and become the rule whenever possible.

(4) The Fund mission should stress that the conditions generally regarded as necessary for convertibility, including reduction of inflation, progress on the problem of sterling and ways of increasing monetary reserves, are also necessary for the most effective functioning of a satisfactory payments agreement. The Fund mission should explore and assist in the formulation of programs designed to achieve these conditions.

Against Gold Premiums

Action by the Executive Board was reported to the Governors on the resolution on gold prices introduced by the government of South Africa at the Fourth Annual Governors' Meeting. The proposal would permit members to sell up to one-half of their newly-mined gold in any market at premium prices, provided that the remainder be sold to monetary authorities or to the Fund at the official price. As previously announced, the Board recommended against the adoption of the resolution. The view was expressed that it would direct gold into private hands rather than to central bank reserves and "not only be unsatisfactory from the point of view of exchange stability, but would also cause a distortion of the normal pattern of trade that might affect adversely the commercial interests of a number of countries." The Board also saw "no economic justification" for recommending a uniform change in the par values of all member currencies. It pointed out that gold-producing countries had benefited from price rises resulting from the devaluations.

Course on Commodities

For the first time, a course in commodity prices and problems is being offered in New York. The New School for Social Research, 66 West 12th Street, announces a new "Workshop of Commodity Prices and Problems" to be given by Dr. Julius Hirsch and Mrs. Edith Hirsch, authorities on the world food situation and on commodity trends.

The course will deal mainly with agricultural commodities, including grains, fats and oil, meat, wool and cotton, coffee, cocoa, sugar and rubber.

The "workshop" should be of particular interest to those engaged in commodity trading. Participants will have the opportunity of citing their own experiences and discussing their problems.

The course is scheduled for Friday evenings from 8:30 to 10:10 p.m. beginning Sept. 29.

Investors Corp. of Fla.

Investors Corporation of Florida has opened offices at 32 Broadway, New York City, to engage in the securities business.

Canadian Securities

By WILLIAM J. McKAY

Despite logical anticipation of momentous decisions on the part of the conferees at the International Monetary Fund annual meeting, the actual outcome was distinctly anti-climactic. In the shape of indeterminate discussion on the subject of inflation and the fate of the quite unimportant Austrian schilling, the mountain labored to produce a mouse. Even the long overdue devaluation of the Pakistan rupee failed to materialize as a result of the deliberations of the world body which was intended to be the accepted arbiter in matters of exchange. Whether or not reference was made behind closed doors to the pertinent question of revaluation from their present undervalued levels of the British Commonwealth currencies, the obvious opportunity to take appropriate action was permitted to pass.

For this strange reticence with regard to a subject that has recently provoked universal attention and the customary official denials there must be a logical explanation. Curiously enough, following the Fund meeting, the British Commonwealth members reassembled in London for a conference that has received very little publicity. A gathering of this kind, however, lends itself admirably for constructive discussion of matters of common and urgent interest to the United Kingdom and the Dominions. The International Fund on the other hand, comprising as it does countries with diverse interests, some of which would undoubtedly conflict with those of the British Commonwealth, is a less desirable medium for the attainment of British objectives. As a background for the London meeting of Commonwealth financial representatives, there is little doubt that the recent pressure for a change of the parities of various Empire currencies figured to a prominent degree. From the British angle it would be highly desirable that any individual currency adjustment shou'd not run counter to the interests of the Commonwealth as a whole. Concerted, instead of independent action in this field also could be designed to promote rather than dislocate the vital sterling-area trade relationships.

It is logical that in view of a forthcoming Imperial conference for the purpose of general study of the changed position of sterling *vis-a-vis* the U. S. dollar, that Canada, Australia, and Pakistan would defer any contemplated independent action. For example, the adjustment of the parity of the Pakistan rupee in relation to the Indian rupee, although obviously inevitable, has been surprisingly deferred. Also in the case of the Australian pound, despite a cabinet majority in favor of revaluation, unconvincing reasons have been advanced for postponement of immediate action. Similarly there appears to be little reason for further delay in restoring the Canadian dollar to its original parity, unless it were known that the matter was due for consideration at an early Commonwealth conference.

There is little doubt that in any discussion of sterling and the Canadian dollar in relation to the U. S. dollar, the following points will clearly emerge:

(1) When the pound was devalued last September it was deliberately placed at an undervalued level; \$3.00 to \$3.20 more accurately represented its true value even at that time when conditions were less in its favor than now.

(2) The extent of the devaluation of sterling compelled action in the case of the Canadian dollar and possibly also the Australian pound.

(3) The cheapening of sterling and the Canadian dollar has now assured what appear to be permanent markets in hard-currency trading areas.

(4) The U. S. rearmament program has created a growing demand for British Commonwealth natural resources: their marketing is no longer dependent on the availability of cheap sterling.

(5) The raising of the value of sterling and the Canadian dollar would offset the increased cost of essential imports from this country as a result of the mounting U. S. price-level.

(6) Currency revaluation would constitute an effective countermeasure against the inflationary pressures that now menace the economic stability of the United Kingdom and the Dominions.

For these reasons it is difficult to conceive that the conclusions reached during the British Commonwealth discussions will not ultimately lead to concerted action in the direction of upward revaluation of several British currencies.

During the week there was a steady demand for external bonds with activity on a larger scale than usual. Interest in internal Dominions was even more persistent despite denials of an imminent currency change. Free funds were still well bid at the official level but the premium on future deliveries narrowed slightly. The corporate-arbitrage rate showed little change at 10½%-9½%. Stocks after a momentary pause resumed their upward course. The industrials continued to lead the advance and the index registered a new 16-year high. Interlisted issues, notably C.P.R., Aluminium Ltd., and Brazilian Traction were also particularly strong. Western oils rallied following their recent weak spell; Pacific Petroleum, Calgary and Edmonton, and Central Leduc were especially prominent. Consolidated Smelters and International Nickel were the star performers of the base-metal group and Paymaster among the golds advanced sharply.

I.D.A. of Canada 1951 Convention

TORONTO, Ont., Canada—The Investment Dealers Association of Canada will hold its 1951 annual meeting from June 11 to June 14, inclusive, at the Jasper Park Lodge, Alberta.

Announced for Oct. 2, 1950 is a meeting of the members of the National Executive Committee at the Fort Garry Hotel, Winnipeg.

Following the meeting of the National Executive Committee, Peter Kilburn, Greenshields & Co., Montreal, President of the I. D. A., and J. A. Kingsmill, Toronto, Secretary-Treasurer, will visit the members as follows: Regina, Sask., Oct. 3; Calgary, Oct. 4; Edmonton, Oct. 5 to 7; Vancouver and Victoria, B. C., Oct. 10 to 14; Winnipeg, Oct. 16 to 18.

Mr. Kilburn will be accompanied by H. L. Gassard, Director of Education, on a visit to the Maritime Provinces: St. John, N. B., Oct. 30; Halifax, N. S., Nov. 2, He will visit Quebec City, Ottawa, Toronto and London later in the year.

The Association also announces the membership of the following District Sub-Committees:

MARITIME DISTRICT

Provincial Government Legislation:
H. S. Griffin (Chairman), Wood, Gundy Corp. Ltd., Halifax; F. C. Fisher, Eastern Securities Co. Ltd., Saint John; H. D. Macgillivray, Cornell, Macgillivray Ltd., St. John's; E. M. Bagnall, F. J. Brennan & Co. Ltd., Charlottetown.

Municipal Administration and Finance:
George W. Ramsay (Chairman), Stanbury & Co. Ltd., Saint John; J. R. Paton, (N. S.) Ltd., Halifax; James Organ, Royal Geo. H. Morrison, F. J. Brennan & Co. (N. S.) Ltd., Halifax; James Organ, Royal Securities Corp. Ltd., St. John's.

Public Relations and Education:
James A. MacMurray (Chairman), Eastern Seecurities Co. Ltd., Saint John; E. M. Bagnall, F. J. Brennan & Co. Ltd., Charlottetown; James Organ, Royal Securities Corp. Ltd., St. John's; W. T. White, G. E. Leslie & Co. Ltd., Halifax.

Business Conduct:
George P. Hamm (Chairman), Nesbitt, Thomson & Co. Ltd., Saint John; Ralph Jones, Eastern Securities Co. Ltd., Charlottetown; J. D. Wood, J. C. Mackintosh & Co. Ltd., Halifax; J. Douglas Winslow, Winslow & Winslow Ltd., Woodstock.

Taxation:
R. M. Colwell (Chairman), Eastern Securities Co. Ltd., Halifax; H. D. Macgillivray, Cornell, Macgillivray Ltd., St. John's; J. R. Paton, Royal Securities Corp. Ltd., Charlottetown; F. C. Fisher, Eastern Securities Co. Ltd., Saint John.

QUEBEC DISTRICT

Education:
J. N. Cole (Chairman), Wood, Gundy Corp. Ltd.; G. W. M. Webb, Bell, Gouinlock & Co. Ltd.; Henry F. Seymour, Greenshields & Co. Inc.; John Porter (Jr., IDAC), A. E. Ames & Co. Ltd., all of Montreal.

Public Relations:
G. A. Ross (Chairman), Collier, Norris & Quinlan Ltd.; Roger Belanger, Belanger, Inc.; J. P. Guite, Credit Interprovincial Limitee; W. H. Price, Mills, Spence & Co. Ltd.; Jacques Adam (Jr. IDAC), Gairdner & Co. Ltd., all of Montreal.

Corporation Finance:
A. D. Nesbitt (Chairman), Nesbitt, Thomson & Co. Ltd.; P. R. Payn, W. C. Pitfield & Co. Ltd.; Henri Robitaille, Lajoie, Robitaille & Cie., Limitee; E. Delahay (Jr. IDAC), Greenshields & Co., Inc., all of Montreal.

Municipal Affairs:
A S. Beaubien (Chairman), L. G. Beaubien & Co. Ltd.; Dudley Dawson, Dudley Dawson Ltd.; E. McNeil, McNeil, Mantha Inc.; P. Mackenzie (Jr. IDAC), Dominion Securities Corp. Ltd., all of Montreal.

Business Conduct:
A. S. Gordon (Chairman), Royal Securities Corp. Ltd.; E. D. B. Kippen, Kippen & Co. Inc.; Rodolphe Casgrain, Casgrain & Cie, Limitee; R. T. Tait (Jr. IDAC), Mead & Co. Ltd., all of Montreal.

Quebec City Group:
J. E. Garneau (Chairman), Garneau, Boulanger Limitee; Henri Clement, Clement, Guimont Inc.; Lt. Col. Jean Gendron, J. T. Gendron, Inc.; Joseph-Albert Gagnon, Clement, Guimont, Inc., all of Quebec.

ONTARIO DISTRICT

Provincial Government Legislation:
H. S. Backus (Chairman), McLeod, Young, Weir & Co. Ltd.; R. K. Wright, Mills, Spence & Co. Ltd.; E. S. Miles, Burns Bros. & Denton Ltd.; S. B. Heath, Walwyn, Fisher & Co. Ltd., all of Toronto.

Public Relations and Education:
W. P. Spragge (Chairman), A. E. Ames & Co. Ltd; D'Arcy Dingle, Wood, Gundy & Co. Ltd.; J. D. Gilmore, Dominion Securities Corp. Ltd.; N. H. Gunn, Bell, Gouinlock & Co. Ltd.; J. S. Dinnick, McLeod, Young, Weir & Co. Ltd.; G. W. Rose, Goulding, Rose & Co. Ltd.; J. H. Christie, R. A. Daly Co. Ltd.; W. H. Watson, Anderson & Co.; E. R. Pope, Milner, Ross & Co.; P. J. Coffey, Burns Bros. & Denton Ltd.; J. M. Stewart, A. E. Ames & Co. Ltd., all of Toronto.

Municipal Administration and Finance:
H. M. Hunter (Chairman), Fairclough & Co. Ltd.; A. C. Cochrane, Bankers Bond Corp., Ltd.; J. I. Crookston, Nesbitt, Thomson & Co. Ltd.; S. B. G. Denton, Cochran, Murray & Co. Ltd.; A. L. Howard, Anderson & Co.; H. L. Johnston, J. L. Graham & Co.; D. C. H. Stanley, Wood, Gundy & Co. Ltd., all of Toronto.

Federal Legislation:
N. D. Young (Chairman), Dominion Securities Corp. Ltd.; H. E. Cochran, Cochran, Murray & Co. Ltd.; L. G. Mills, Mills, Spence & Co. Ltd., all of Toronto.

Taxation:
W. J. McLelland (Chairman), Wood, Gundy & Co. Ltd.; C. W. Head, Mills, Spence & Co. Ltd.; R. E. O'Brian, Wood, Gundy & Co. Ltd.; W. T. Vance, A. E. Ames & Co. Ltd.; C. E. Jolly, Dominion Securities Corp. Ltd.; E. R. Pooler (Jr. IDAC), Fairclough & Co. Ltd., all of Toronto.

Business Conduct:
M. C. Deans (Chairman), Bankers Bond Corp. Ltd.; M. F. Newman, Cochran, Murray & Co. Ltd.; J. H. Christie, R. A. Daly Co. Ltd.; D. G. Simpson (rep. Toronto Bond Traders Assn.), Midland Securities Ltd.; Norman B. Bell (Jr. IDAC), Bell, Gouinlock & Co. Ltd., all of Toronto.

Stock Exchange Liaison:
F. D. Lace (Chairman), Matthews & Co.; P. J. Anderson, A. E. Ames & Co. Ltd.; D. K. Cassels, Cochran, Murray & Co. Ltd.; R. O. Funston, Wood, Gundy & Co. Ltd.; W. E. Parker, Dominion Securities Corp. Ltd.; W. H. A. Thorburn, Mills, Spence & Co. Ltd., all of Toronto.

Ottawa District:
S. D. Gamble (Chairman), Monk, Gamble, Froats and Co.; W. R. McGee, L. G. Beaubien & Co. Ltd.; R. D. Steers, R. D. Steers and Co.; G. H. Taylor, Wood, Gundy & Co. Ltd.; B. E. Dabson, Nesbitt, Thomson & Co. Ltd.; D. W. McKeen, Royal Securities Corp. Ltd., all of Ottawa.

London District:
H. L. Petrie (Chairman), Jennings, Petrie & Co. Ltd., London.

ALBERTA DISTRICT

Provincial Government Legislation:
R. T. Morgan (Chairman), Wood, Gundy & Co. Ltd., Edmonton.

Municipal Administration and Finance:
F. N. Hughes (Chairman), James Richardson & Sons, Edmonton.

Entertainment:
R. Turner (Chairman), W. C. Pitfield & Co. Ltd., Calgary; A. K. Snell (Vice-Chairman), Carlile & McCarthy Ltd., Edmonton.

Public Relations and Education:
H. D. MacKeen (Chairman), Toole, Peet Investments Ltd., Calgary; J. E. Sydie (Vice-Chairman), Sydie, Sutherland & Driscoll Ltd., Edmonton.

Business Conduct:
A. H. Turney (Chairman), James Richardson & Sons, Calgary; K. Langfeldt (Vice-Chairman), W. C. Pitfield & Co. Ltd., Edmonton.

Taxation:
C. R. Tanner (Chairman), Tanner & Co. Ltd., Calgary; J. V. Sorsoleil, Nesbitt, Thomson & Co. Ltd., Calgary; J. E. Sydie, Sydie, Sutherland & Driscoll Ltd., Edmonton; C. McDonald (Vice-Chairman), Tanner & Co. Ltd., Edmonton.

Speakers Panel:
C. R. Tanner (Chairman), Tanner & Co. Ltd., Calgary; C. McDonald (Vice-Chairman), Tanner & Co. Ltd., Edmonton.

PACIFIC DISTRICT

Municipal Affairs:
W. T. Brown (Chairman), Odlum Brown Investments Ltd.; A. G. Osburn, Pemberton & Son Vancouver Ltd.; John J. West, Good, Gundy & Co. Ltd., all of Vancouver.

Membership:
K. S. Blair (Chairman), James Richardson & Sons; J. L. Duncan, Wood, Gundy & Co., Ltd., both of Vancouver.

Business Conduct:
H. H. Dingle (Chairman), Wood, Gundy & Co. Ltd., Vancouver; J. D. Hagar, Hagar Investments Ltd., Victoria.

Public Relations and Education:
G. D. Sherwood (Chairman), McMahon and Burns Ltd.; P. A. Wootten, Western City Co. Ltd.; H. R. Whittall, Ross Whittall Ltd., all of Vancouver.

Taxation:
D. C. McDermid (Chairman), McDermid, Miller & McDermid Ltd; I. D. Main, Dominion Securities Corp. Ltd.; James MacKee, Victoria Securities Ltd., all of Vancouver.

Provincial Legislation:
R. H. Edgell (Chairman), Yorkshire Securities Ltd.; K. S. Patton, James Richardson & Sons; James Munro, Yorkshire Securities Ltd., all of Victoria.

Pasadena Bond Club Investment Course

PASADENA, Calif.—For the sixth time an investment course, designed to present the fundamentals of securities, and to provide a practical approach to the problems of investment from the standpoint of the average investor, will be presented at the Pasadena City College at 7:00 p.m. Wednesday, it was announced by Harry W. Hurry, Chairman of the Education Committee of the Pasadena Bond Club.

Registration may be made in Room 200-C Wednesday evening, and the course will be held each Wednesday thereafter from 7:00 to 9:00 p.m. for 17 consecutive weeks. The course is free to the public.

Sponsored by members of the Pasadena Bond Club and the Pasadena Board of Education, Extended Day Division, the course will be conducted by Ted C. Coleman, Manager, Pasadena Office, Hill, Richards & Co. With over 20 years' experience in the investment business, Mr. Coleman is regarded as well qualified to conduct the course. In sponsoring the course, Robert J. Gillette, President of the Pasadena Bond Club, points out that the Club is offering the public an opportunity to learn and understand the fundamentals of investing in stocks and bonds from a practical standpoint rather than any crystal-ball schemes of "how to beat the stock market."

The following subjects will be covered, and particular emphasis will be placed on the importance of selecting securities from the standpoint of investment as opposed to speculation:

- Introduction: History of Investment, Significance
- Functions of the Underwriter, Investment Counselor, Investment Dealer, and Broker
- Investment and Speculation Defined
- The Corporation's Financial Structure: Bonds, Preferred Stocks, Common Stocks
- The Corporation's Balance Sheet: Profit and Loss Statements
- Security Markets: Listed and Unlisted
- Functions of the Stock Exchange
- New vs. Old Industry: Small vs. Big Business
- Sources of Information on Securities
- Investment Trusts
- Diversification: Portfolio Planning
- The Business Cycle: Its Relation to Investment Timing
- Insurance Stocks and Bank Stocks
- Forecasting and Analysis
- Effects of Government on Private Investment
- Common Investment "Pitfall"
- General Review

Members of the Pasadena Bond Club representing the following institutions cooperating with Pasadena City Schools are offering this course to residents of this area: Bateman, Eichler & Co.; Bingham, Walter & Hurry; Crowell, Weedon & Co.; Dean Witter & Co.; Denton & Co.; E. F. Hutton & Co.; Hill, Richards & Co.; John M. Barbour & Co.; Jones, Cosgrove & Co.; C. Harry Laufman Co.; Lester & Co.; Leo G. MacLaughlin Sec. Co.; Merrill Lynch, Pierce, Fenner & Beane; George R. Miller & Co.; Paine, Webber, Jackson & Curtis; Pasadena Corporation; Milton C. Powell Co.; Quincy Cass Associates; Redfield & Co.; William R. Staats Co.; Wagenseller & Durst; Walston, Hoffman & Goodwin; First California Co.; Shearson, Hammill & Co.

Inquiries regarding the course may be directed to Harry W. Hurry, Bingham, Walter & Hurry, Pasadena, or to Robert J. Gillette, Crowell, Weedon & Co., Pasadena.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Joseph Peter Grace, Jr., President and Director of W. R. Grace & Co., has been elected a trustee of the **Emigrant Industrial Savings Bank of New York**, it was announced by John T. Madden, President of the 100-year-old institution. Mr. Grace has been elected to fill the vacancy arising from the death of his father, Joseph P. Grace, last July. In addition to the Presidency of the Grace organization, Mr. Grace also serves as a director of the National City Bank, Ingersoll Rand Co., Northern Insurance Co., Assurance Company of America, Stone & Webster, Inc., Atlantic Mutual Insurance Co., Centennial Insurance Co., Grace Line, Economic Club, and Commerce and Industry Assn. He is a trustee of the Inter-American Council of Commerce and Production.

Joseph P. Grace, Jr.

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Announcement was made on Sept. 18 by the **Manufacturers Trust Company of New York** of various changes among the officers following the death of President Harvey D. Gibson on Sept. 11, an item regarding which appeared in our Sept. 14 issue, page 1010.

Henry C. Von Elm, formerly Chairman of the Board of the Trust Company, has been named President and Chief Executive Officer to succeed Mr. Gibson; Horace C. Flanigan, formerly Vice-Chairman of the Board, has been named Chairman of the Board; Ernest Stauffen, Chairman of the Trust Committee, has been named Chairman of the Finance Committee, and Harry C. Kilpatrick, formerly Vice-President and Assistant to the President, becomes Executive Vice-President and a director.

Mr. Von Elm, the newly elected President and Chief Executive Officer, began his banking career in 1903 with the Manufacturers National Bank, which in 1914 became part of what is now Manufacturers Trust Company. During this period, Mr. Von Elm served in various official capacities and has been Chairman of the Board since 1947. He has been a director since 1925. From 1942 until 1945, while Mr. Gibson was serving as American Red Cross Commissioner for Europe, Mr. Von Elm acted as Chief Executive Officer of the Bank. Mr. Von Elm is also President and a director of Manufacturers Safe Deposit Company and serves as a director of a number of companies.

Mr. Flanigan became a director of Manufacturers Trust in March 1931 and a Vice-President in October 1931. He was named Vice-Chairman of the Board in 1947. Mr. Flanigan is a member of the Board of Trustees of Cornell University, from which he was graduated in 1912, and a director of various corporations. Mr. Stauffen was associated with Mr. Gibson as a Vice-President of the Liberty National Bank as far back as 1917, and joined Manufacturers Trust Co. in 1932. He has been Chairman of the Trust Committee since 1934 and a director since 1939. He serves as a director of a number of organizations, among them the Marine Midland Corp. and the Central Savings Bank, serving on its board of trustees and Executive Committee. Mr. Kilpatrick began with Manufacturers Trust Co. in 1933. He was made an Assistant Vice-President in 1937 and Vice-President in 1938. During the Second World War, Mr. Kilpatrick was on leave of absence from November 1942 until October, 1945, during which time he served as Executive Officer of the Corps of Engineers, United States Army, attaining the rank of Lieutenant Colonel. Mr. Kilpatrick serves as a director of a number of companies.

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Stockholders of **Bankers Trust Company of New York**, on Sept. 14, approved the merger of that institution with **Lawyers Trust Company of New York**, by a vote of 2,377,072 to 1,538 at a special meeting held at 16 Wall Street. The merger became effective with the opening of business on Monday, Sept. 18, when the four offices of Lawyers Trust Company began operating as branches of Bankers Trust Company. All officers and employees of Lawyers Trust Company will join Bankers Trust Co., including Orie R. Kelly, President of Lawyers Co., who will become a director and Vice-President in charge of New York City business. James C. Brady, President of Brady Security and Realty Corporation, and Howard S. Cullman of Cullman Brothers, Inc., both directors of Lawyers Trust Co., will also become members of the Board of Bankers Trust. The appointments will become effective after approval of the merger by the State Superintendent of Banks.

The Lawyers Trust offices have been located at 111 Broadway; Empire State Building, Fifth Avenue at 34th Street; 14th Street and Eighth Avenue, all in Manhattan, and 203 Montague Street, Brooklyn. These offices will supplement the 11 present offices of Bankers Trust Co., six of which were recently acquired from **Title Guarantee & Trust Company.** An earlier item regarding the merger of the Lawyers Trust with the Bankers Trust appeared in our issue of Aug. 24, page 726. In our issues of Aug. 3, page 448, and also Aug. 17, page 641, reference was made to the acquisition by the Bankers Trust of the deposit liability and certain assets of the banking division of the Title Guarantee & Trust Co.

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At the regular meeting of the Board of Directors of **The National City Bank of New York** held on Sept. 19, Boykin C. Wright was elected a director to fill the vacancy created by the death of Guy Fairfax Cary, who died on Aug. 27, after serving as a member of the Board for more than 30 years. Mr. Cary was a member of the law firm of Shearman & Sterling & Wright, with which Mr. Wright has been associated since 1945. The new member has been a director of City Bank Farmers Trust Company, the National City trust affiliate, since 1942. His army career at the end of the Second World War found him a Brigadier-General. In World War I, he served as Captain and later as Major in the Infantry. He received decorations in both wars. After the Armistice in 1918, Mr. Wright was attached to the Peace Conference in Paris and became American Secretary to Supreme Economic Council in 1919. Mr. Wright graduated from the University of Georgia in 1911 and Harvard Law School in 1914, where he was President of the Harvard Law Review. Born in Richmond, Va., he began the practice of law in New York in 1920 with the firm of Cotton & Franklin, becoming a partner in 1922.

* * *

Stewart Forshay has been elected a Vice-President of **Excelsior Savings Bank of New York**, it is announced by Francis S. Bancroft, President of the bank. Mr. Forshay has been a Trustee of the bank since 1934 and is also a Trustee of Title Guarantee and Trust Company. He is President of Byrne, Bowman & Forshay, and has been in the real estate business for over 40 years.

* * *

The Bowery Savings Bank of New York announced on Sept. 13 plans for the building of a branch, together with a modest housing project, in the heart of Harlem. The Bowery has virtually completed arrangements for the purchase of the site to contain the branch, modern stores and offices, as well as some residential units. Announcement of this move was made by Henry Bruere, Chairman. Details of location of the branch and accompanying facilities, and other special facts are not as yet available, being subject to approval of the new banking office by the State Banking Department.

* * *

A display of rifles and shotguns is now on exhibition in the windows of **Colonial Trust Company's** Rockefeller Center Office at Avenue of the Americas and 48th Street, in **New York**. The display is sponsored by the Marlin Firearms Co., and its affiliate, the L. C. Smith Gun Co. According to a joint announcement by Roger Kenna, President of the former companies, and Arthur S. Kleeman, President of the banking house, the exhibit is intended to dramatize graphically both the evolution of firearms in this country and various steps in the present-day manufacture of sporting arms.

* * *

Elmer W. Nelson has been elected a trustee of the **Union Savings Bank of Westchester County, at Mamaroneck, N. Y.**, it was announced on Sept. 18 by Gabriel Wendel, President of the bank. Mr. Nelson is Sales Manager, Eastern Bank Division, and consultant on foreign contracts of Diebold, Inc., with which he has been associated for 35 years. He is a past President of the Rotary Club of New York.

* * *

The Thomaston National Bank of Thomaston, Conn., was placed in voluntary liquidation on Aug. 18, having been absorbed by the **Colonial Trust Co. of Waterbury, Conn.** The Thomaston Bank, which had a capital of $50,000, is now operated as a branch of the Waterbury institution.

* * *

Kelley Graham, Chairman of the Board of **The First National Bank of Jersey City, N. J.**, has announced the expansion of the staff of the bank's Consumer Credit Department, and the broadening of its scope to include Loans to Small Business. Loans up to $5,000 are contemplated and terms up to 24 months will be granted where warranted. "This new First National service is," stated Mr. Graham, "designed to give small businessmen of Greater Hudson County financing expressly tailored to meet their needs." John G. Hewitt, manager of the Consumer Credit Department, will exercise general supervision of the operations of the Loans to Small Business Section. Theodore J. LeRoy, formerly Assistant Credit Manager, will be directly in charge with headquarters at the Hoboken Office, 47 Newark Street.

* * *

David H. Harshaw, President of the John B. Stetson Company, has been elected a director of the **Pennsylvania Company for Banking and Trusts of Philadelphia,** it was announced on Sept. 14. Mr. Harshaw became connected with the John B. Stetson Co. in 1935 and was advanced through various executive posts until his election as President and director of the company in March, 1947. Prior to that he was successively with the U.G.I. Contracting Company and the United Engineers and Constructors, Inc., both of Philadelphia. He is also a director of McCue Brothers & Drummond, New York; John B. Stetson Building & Loan Association; the Mallory Hat Company; John B. Stetson Company (Canada) Limited, etc. Mr. Harshaw was graduated from the University of Pennsylvania in 1926.

* * *

The proposed consolidation of the **Indiana National Bank** and the **Union Trust Co.** both of **Indianapolis, Ind.** was approved by the directors of both institutions on Sept. 13. The merger, it is stated, involves $375,000,000. Associated Press advices from Indianapolis, referring to the plans, said: "The two banks have been affiliated since 1893, when Union Trust was organized by Benjamin Harrison, 23d President of the United States; John H. Holiday, founder of the Indianapolis News; James Whitcomb Riley, Hoosier poet, and others."

The consolidated institution will operate under the name and charter of the Indiana National Bank; the capital will be $25,000,000. The directors of the enlarged bank will be those now composing the bank's board; 13 directors of the Union Trust are now members of the board of the bank. A special meeting of the directors of both institutions will be held on Oct. 19 to vote on the proposal, which is also subject to the approval of the Comptroller of the Currency and the State Banking Department. Russell L. White is President of the Indiana National, while Volney M. Brown is President of the Union Trust Co.

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Albert W. Mills was named First Vice-President of the **Federal Reserve Bank of Minneapolis** at a meeting of the bank's directors on Sept. 15. J. N. Peyton, President of the Reserve Bank has announced. Mr. Mills, formerly Vice-President and Cashier of the Bank, succeeds Oliver S. Powell, who recently resigned as First Vice-President of the Minneapolis Bank to become a member of the Board of Governors of the Federal Reserve System in Washington, D. C. Prior to coming to the Federal Reserve Bank in 1933, Mr. Mills had been Cashier of the Pioneer National Bank of Duluth. He was also formerly associated with the Minnesota State Banking department, St. Paul. He was made Assistant Auditor of the Reserve Bank in 1938, Auditor in 1941, Cashier and Secretary in 1942, and Vice-President and Cashier in 1947.

* * *

Arthur H. Quay was elected President of **First National Bank of Minneapolis** at a special meeting of the bank's directors on Sept. 11. At the same time Malcolm B. McDonald was named to the newly created post of Executive Vice-President.

Aged 55 and a veteran of 33 years of service with First National, Mr. Quay is the tenth President in the history of the 86-year old bank. He succeeds Henry E. Atwood, President from 1945 until his death from a heart attack on Aug. 27, an item regarding which appeared in our Aug. 31 issue, page 822.

Soon after graduation from high school at Wayzata, Minn., Mr. Quay the newly elected President entered the credit department of First National Bank. Less than three months later he began two years of World War I service in the 151st Field Artillery. Returning to the bank in 1919, he became successively Manager of the credit department, Assistant Cashier in 1927, and Vice-President in 1938. Last year he was elected a director of the bank. Mr. McDonald, entered the service of the First National in 1940 as General Counsel after 11 years in the Minneapolis law firm now known as Dorsey, Colman, Barker, Scott & Barber. A few months later he was made Vice-President and General Counsel of the bank. Since 1946 he has served as a General Vice-President. Since May, 1949 he has been a director of First National Bank. Mr. Quay is President and a director of First Bloomington Lake National Bank, a Minneapolis affiliate of First National and one of the banks of the First Group. He is a director of First Service Corporation, operating affiliate of First Bank Stock Corporation with which First National Bank is affiliated. He is a member and former President of the Minneapolis Association of Credit Men, and a member of the Association of Reserve City Bankers. Mr. McDonald is President and a director of First Edina State Bank, another affiliate of First National and a member of the First Group of Banks.

* * *

The capital of the **American National Bank of Amarillo, Texas**, was increased as of Aug. 31 from $200,000 to $300,000 by a stock dividend of $100,000.

* * *

John C. Laughlin, Jr., Assistant Vice-President of the **Peoples National Bank of Washington at Seattle** has been named Manager of the North Seattle Branch to succeed Ross A. Cook who is being transferred to the Main Office of that bank, Joshua Green Jr., President, announced on Sept. 17. Since 1935, Mr. Cook has successfully managed the branch office. Mr. Laughlin came to Seattle from Miles City, Mont., where he had been associated with the First National Bank, of which his father was Cashier. Graduating from the University of Washington in 1935 Mr. Laughlin became associated with Peoples National Bank as messenger and was transferred to the West Seattle branch in 1936, back to the Main Office in 1942 as Assistant Cashier and Personnel Officer, and in 1945 was assigned to the First Avenue Branch as a Loan Officer. He has been active in the work of the American Institute of Banking, serving as President of the Seattle Chapter in 1947-1948 and an instructor in A.I.B. classes in Fundamentals of Banking.

R. C. Roberts & Co. Open in New York

Richard C. Roberts and Robert R. Krulisch announce the formation of R. C. Roberts & Co. to deal in investment securities. The new firm will maintain offices at 32 Broadway, New York City.

Cartwright, Magid, Directors

Clermont Cartwright and Samuel E. Magid, Chairman and President, respectively, of the investment banking firm of Hill, Thompson & Co., Inc., were elected directors of Allied Electric Products, Inc., at the annual meeting of stockholders.

George Shaskan

George Shaskan, senior partner of Shaskan & Co., New York City, died at his home Sept. 17, after a long illness.

Continued from page 4

Economic Impact of Defense Production Act

ceilings on prices, commissions, wages, and salaries, paid or received by any person for any material or service. The standard is the price prevailing during the period from May 24, 1950. Exempt from this section are prices or rentals for real property, fees charged for professional services, charges by press associations, publications, broadcasting stations, theaters, outdoor advertising, insurance, common carriers, and margin requirements on any commodity exchange.

Price and wage stabilization powers shall not be used to compel changes in business practices, cost practices or methods or means or aids to distribution, established in any industry—except where the President thinks it necessary.

The President is judge and jury of any protests against any price controls. However, upon request of the protestant (sic), before denial in whole or part, a protest may be considered by a board of review appointed by the President.

The protestant shall be informed of the recommendations of the board, and in the event that the President rejects in whole or in part the recommendations of his board of review, the protestant shall be informed of the reasons for such rejection. If the protester is not worn out by this time he may file a complaint with an emergency Court of Appeals, specifying his objections and praying that the regulation be enjoined or set aside in whole or in part on the ground that it is not in accordance with law or is arbitrary or capricious.

The Emergency Court of Appeals shall have the powers of a district court, except that the court shall not have power to issue any temporary restraining order or interlocutory decree staying or restraining, in whole or in part, the effectiveness of any regulation or order relating to price controls. Notwithstanding the pendency of any complaint before the Emergency Court of Appeals, the President may modify or rescind the regulation or order at anytime.

A petition for a writ of *certiorari* may be filed in the Supreme Court of the United States, which will review the judgment or order in the same manner as a judgment of a U. S. Court of Appeals.

These provisions by-pass the regular system of Courts. It is expressly provided that no court, Federal, State, or Territorial, shall have jurisdiction or power to act on any regulation or order relating to price controls. This roundabout method of reaching the Supreme Court on appeal makes it harder to test the constitutionality of any regulation, and shifts the burden of proof and expense to the citizen rather than to the government.

If any person selling any material or service violates a ceiling regulation, the person who buys such material or service for use or consumption other than in the course of trade, may within one year bring an action against the seller for overcharge. In such action the seller shall be liable for reasonable attorney's fees and costs plus an amount not more than three times the overcharge in the case of a willful violation, or just the amount of the overcharge in case the violation was not willful. This section opens the way for unlimited nuisance actions by unscrupulous buyers.

Consumer credit and real estate construction credit are regulated under the Act as to maximum loan, minimum down payments, maximum maturities, and the amount, form and time of payments.

Too Much Reliance on Consumer Credit Controls

There is too much reliance on the power of consumer credit controls to free resources to produce military supplies. If consumer durable goods are produced they ought to be sold and it does not make any difference if they are sold for cash or on time. If they are not produced, you do not need credit or credit controls. If you do not want them to be produced, the simple way is to deny the use of metals for producing such goods. Programs for allocation of metals would be concerned only with some thousands of producers. Consumer credit controls reach into the lives of millions of consumers.

Small business enterprises are given a pat on the back. They may be favored by such exemptions as may be feasible without impeding the accomplishments of the objectives of the Act.

While the Act is in effect, and for two years afterward, the President is entitled by regulation, subpoena, or otherwise, to obtain such information from, require such reports and the keeping of such records by, make such inspection of the books, records and other writings premises or property of, and take the sworn testimony of any person as may be necessary, or appropriate, **in his discretion**, to the enforcement or administration of the Act.

Provisions for price and wage stabilization and controls of consumer and real estate credit terminate at the close of June 30, 1951. Provisions for priorities, allocations, authority to requisition, expand productive capacity and supply and the general provisions terminate at the close of June 30, 1952. Either set of provisions may be terminated earlier by Presidential proclamation or by concurrent resolution of Congress.

This is an inadequate resume of an appalling list of powers handed to one man with practically no restraints except a time limitation which can easily be extended. A Congressional watch dog committee is to report progress under the Act. The Committee is authorized to hold hearings to inform itself. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. Even in small items Congress is careful of the taxpayers' money.

No one knows the extent to which powers granted by the Act will have to be invoked. That is governed by the future size and duration of the military program.

Military expenditures in the fiscal year ended June 30, 1950 were about $15 billion. Since Korea, the President has asked for $17 billion additional for military purposes. Probably only $10 billion of this additional appropriation can be spent in the current fiscal year. The annual rate of total military expenditures would thus rise from $15 billion at mid-1950 to $30-$35 billion a year hence. This compares with a maximum of $90 billion and 12 million in the armed services at the peak of World War II. The impact of rearmament on the economy today is much less than the impact of rearmament was in 1940-41.

No Drastic Effect on Consumer Supplies

To increase the annual rate of military expenditures from $15 billion to $30-$35 billion one year hence is not too difficult in terms of the overall reduction that will be required in the supply of goods for civilian use.

Our overall productive potential is some 50% larger, through a 10% increase in the labor force and a one-third expansion in productivity due to technological advances. We are better off, too, in stockpiles of basic raw materials, shipping and transportation.

The increase in military output contemplated is 6 to 8% of the rate of non-military production before Korea. By enlarging the labor force through the normal growth of population, through calling back more women and older workers, through putting some of the unemployed to work, and through lengthening the work week, the economy should be able to turn out in the next year this additional 6 to 8%. There will however be man power shortages more or less acute at different times and places.

So the present program of military production can probably be carried through with little reduction in total overall civilian supplies. By next spring the military will be using 15% of steel production, which leaves 85% of steel capacity for civilian use.

While the total of civilian supplies may not be reduced, the reduction will be bigger in certain kinds of civilian goods. A larger than average cut back will occur in passenger automobiles, household appliances and other consumer durable goods using metals and scarce materials. But even here there can still continue a substantial volume of production. If the production of automobiles, as an example, were cut back 50% from the present annual rate, next year would see the production of four million cars, which by prewar standards would be a very high volume.

Pre-Korea non-military demand was near productive capacity. Injection of $15 billion to $20 billion of extra military demand at such a time could concentrate an excess of demand with resulting general price increases. We have had some of the increases already through scare buying even before any of the extra appropriation has been allocated on order.

The government will drain off some of the potential for excess demand through a vigorous campaign for the sale of savings bonds. It has already liberalized the amount that may be held by institutions. More of the potential will be taken away from business and consumers by the tax collector. The first step-up is designed to gather $5 billion more in taxes. Next year there will be more tax increases.

Through its various provisions the Defense Production Act of 1950 is designed to restrain the growth of the inflationary potential of excessive demand or to contain it where it exists. Through credit controls it discourages deficit financing by individuals and by business firms. State and local governments could set a good example of doing without. It has been estimated that $2 billion to $3 billion could be saved from the costs of running the Federal Government, besides the nearly automatic savings made possible by the changed economic condition, such as lower expenditures for farm price supports and mortgage purchases.

We must be careful of misdirected effort and zeal in applying the provisions of the Defense Production Act of 1950. Uncoordinated action that releases productive resources faster than the military program requires them will only lead to unnecessary unemployment and deflation.

The heavy refunding operations that lie ahead for the public debt and the large deficits that loom as a result of the step-up in the military programs, make it mandatory for the Treasury and the Federal Reserve Board to compose their differences so that the Federal debt may be managed with a minimum of reliance on bank borrowings which have such leverage on inflation.

Nation Can Take Program in Its Stride

All in all, our economy can almost take the present program in its stride. Our standard of living may be retarded in growth, but it will not be seriously impaired. Unfortunately, the future size and duration of our military expenditures depends on decisions made by others. Any expansion of the present program will require a new assessment of the economic effects.

Confronted by national peril, we must gather our strength for military purposes, but in the process we must hold to the vision of the freedoms that encourage the initiative which made the United States great and powerful for peacetime pursuits. Whatever restrictions we place upon ourselves are in the interest of national defense.

The Production Act of 1950 shows how far we are willing to go, but it places a frightful responsibility on the President, and on you, and on me to see that the power is used only in the emergency and only for the emergency.

Railroad Securities

Bullish Factors in Rail Securities

The rail market continues to give a particularly good account of itself, and the overwhelming opinion among railroad analysts and market technicians is that further substantial gains are in prospect over the near and intermediate terms. For one thing, the market will have important support from highly favorable earnings comparisons in August and subsequent months. During this period a year ago, railroad traffic and earnings were seriously affected by labor troubles in the all-important coal and steel industries. Indicative of what may be in prospect in the way of earnings comparisons **Chesapeake & Ohio**, the first to report, showed August net income more than five times that of August, 1949.

There are other factors contributing to the bullishness toward railroad securities. For a number of years investors and speculators have operated under the threat of a recession of serious proportions "just around the corner." They were skeptical as to the ability of the railroad industry as a whole to show much in the way of earnings in such a recession. Since the start of the Korean incident these fears have been set aside. It is now generally, and confidently, believed that a period of high business activity is assured for a number of years to come. With sustained heavy traffic there is little question but that the carriers will be able to realize handsome profits.

The carriers enter the present emergency in far better shape than they were at the outset of World War II. Since 1941 close to $8 billion has been spent on additions and betterments to property and equipment. A substantial part of this has been spent on diesel power. Capacity of lines and of important terminals has been increased substantially. Overall physical condition has been improved. These additions and betterments, and stepped up maintenance, have brought about a marked improvement in operating efficiency, with a consequent increase in the potential margin of profit under anticipated boom traffic conditions.

The improvement in the status of railroads in the period since the outbreak of World War II has not been confined to physical factors. Finances have also been strengthened materially. During the past 10 years the total net outstanding debt, including equipment obligations, has been cut by approximately $2 billion. It now stands at not much over $8.5 billion. It is notable that the money spent on the properties since 1941, not including the heavy maintenance outlays, has been practically as much as the entire debt now outstanding. Because of many lower coupon refunding operations, moreover, fixed charges have been reduced even more rapidly than has the debt. Finally, net working capital has increased roundly $850 million.

With the properties in good shape, a large amount of new equipment in service, debt cut substantially and working capital position bolstered, it is obvious that the railroads are in a position conservatively to pay out a larger share of dividends now than they were 10 years ago. In the years 1941-1945 the railroads paid out less than a third of reported earnings in dividends. In more recent years the ratio of dividend disbursements to reported earnings has been slightly more than 50%. If only this recent ratio is maintained the prospective increase in earnings should alone bring larger payments to stockholders. In this connection the financial community is awaiting with particular interest the meeting of **Santa Fe** directors around the 26th of this month.

A final factor contributing to the better feeling toward rail securities is that of the impending tax legislation. Railroads, along with every other corporate enterprise and most individuals, will naturally feel the impact of defense spending through higher taxes. However, with respect to an excess profits tax, which now appears almost certain, the railroads are expected to again be in a relatively sheltered position. Presumably invested capital will be an important determinant of excess tax liability and the railroads have high invested capital bases.

Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, Fla. — Orator Frank Woodward III has joined the staff of Thomson & McKinnon, 272 South County Road.

A. C. Allyn Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John L. Lawver has been added to the staff of A. C. Allyn & Co., Inc., 100 West Monroe Street.

Joins Channer Secs.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John L. Reynolds has joined the staff of Channer Securities Company, 39 South La Salle Street.

F. I. du Pont Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Robert E. Greene has become affiliated with Francis I. du Pont & Co., 208 South La Salle Street.

Any Time Is "An Ideal Time" for This

"This would be an ideal time to get away from high farm price supports, because they aren't needed to bolster the market. Price rises from the Korean war have made supports relatively unimportant.

Dr. O. B. Jesness

"But the Korean crisis has put the spotlight on an even more important reason for revising our agricultural program. It has emphasized the fact that our position in the world has changed and that we must accept leadership and its responsibilities, or Russia will. And it is certain that we cannot maintain an effective agricultural program of high support prices and still live up to our responsibilities to the rest of the world."—Prof. O. B. Jesness, University of Minnesota.

We are, of course, quite in accord with the Professor's conclusions, but they are valid without reference to Korea or "our responsibilities to the rest of the world."

The fact is we should never have embarked on such a program in the first place, and should not now waste a moment in rectifying the situation. We owe it to ourselves.

Continued from page 6

Factors in Investment Management

unrelated businesses—one a fancy lace business and the other a real estate business consisting of one square-block, five-story building, the first four floors of which he rented on a long lease basis to a large corporation. This gentleman was in his middle 70s and was married to a lady some 30 years younger than himself. He had no children. His sole objective in his testamentary plans was to make sure that his wife would be able to live, after his death, in the manner to which she had become accustomed. This gentleman's associates in his businesses were contemporaries.

In his will he gave everything outright to his wife.

Our first question, after we had gone over this gentleman's background, was what figures had he set on the values of his businesses. He stated he only had a vague idea, and that such matters were taken care of by his accountants. We asked him why he had not taken advantage of his marital deduction. His reply was that he was perfectly satisfied with the way the will was drawn; that he had given the matter careful thought and that he didn't think he wanted to make any changes.

Well, here was his situation. It developed that net earnings from each of his businesses, after taxes, approximate $100,000 per year for each of the preceding ten years. Under the customary rule of thumb, and for estate tax purposes, each of the businesses would likely be valued at about ten times average ten years earnings, or $1,000,000 as the value for tax purposes for each of the businesses. Added to his $2,000,000 in securities, his gross estate would be about $4,000,000. After allowable deductions, his Federal and state, estate taxes and administration expenses would approximate $2,000,000.

It generally follows that where a business is a one-man business the sales value shrinks severely on the owner's death. However, the value for tax purposes does not shrink but remains as the value as of the date of his death in accordance with the usual formula.

Under these circumstances, then, this gentleman's executors would be required to set aside, promptly after his death, tax and administration expenses of about $2,000,000. The only liquid assets would be in the form of securities as mentioned earlier. If we assume for the moment that the executors would sell the securities promptly in order to escape market risks, to provide the needed money, then the widow would be left with two businesses, about which she would know nothing, and the businesses themselves would likely have shrunk 25% to 50% in sales value. That which would remain would be something between $1,000,000 and $1,500,000, the rest having evaporated in taxes and shrinkage. The remedy here was to sell the businesses as soon as possible, with a proviso that the gentleman remain in a consulting capacity, on a salary basis. In disposing of his businesses, his total income would be reduced but not to a point where he could not do everything he had been doing for many years past.

He was advised also to revise his will and to gift to his wife one-half of his residual estate outright, in order to qualify under the marital deduction, and thus save substantially in taxes, and to put the balance in trust for her. Under these circumstances she would wind up with something around $3,000,000 with which to keep the wolf away from the door, as compared to $1,000,000 to $1,500,000 under the original setup.

Another problem with which we have to contend frequently is the bland announcement by the proud parent that his children have been taught the value of money and that, therefore, rather than placing his fortune in trust for them, he wants to have his children receive his estate outright, in order that they might have something on which to get started in life. Without casting any reflection on you gentlemen, it is the opinion of wiser heads, based on bitter experience, that it is far better not to trust fortunes to children until they have reached the age of 35. In this way, the penalties of an unfortunate marriage and of unfortunate and inexperienced investment are avoided. Under the outright passing of the fortune to children, there is one tax on the death of the parent, and a second tax on the same fortune on each child's share on the death of each child. A better and more practical plan is to place the fortune in trust, with partial distributions at given ages, say 21, at marriage, 25, 30 and the balance at 35.

A recent case highlighted the practical use of insurance. This was the case of a doctor and his wife and two sons, both matured. The father and mother had independent fortunes of about $500,000 each which they had inherited. During the doctor's struggling years he relied, and properly so, on insurance for the protection of his family. At the time we first conferred with the doctor he was carrying $100,000 face value in insurance. The cash value was something over $50,000 and the paid-up value was something over $70,000. The fortunes of both the mother and father were divided equally in trust between the two boys under terms of the parents' wills. Neither had taken advantage of allowable lifetime gifts. It was suggested to the doctor that he gift his insurances to his sons, since the gifting could be made on the cash value, rather than the paid-up value of the insurances. Moreover, since neither the father nor the mother had taken advantage of allowable lifetime gifts of $30,000 each and since the insurance could be gifted at the cash value of something over $50,000, or less than the parents' combined allowable tax free gift total of $60,000, there would be no gift tax involved. Moreover, the gifting of the insurance would remove it from the doctor's estate, thus saving substantially in high-bracket estate taxes, and, in addition, he would save himself premiums of about $2,500 a year. Since the doctor's life expectancy was approximately ten years, the premium saving could amount to a total of $25,000.

Another problem we often encounter is that of identical wills in the case of husband and wife. One says to the other: "In appreciation of the loyalty and devotion of my spouse, I give to him or her all that I own." Here again, a vital tax situation has been overlooked. If the fortunes are sizable, what happens is that on the death of the first spouse there is a sizable estate tax. What is left, piled on top of the remaining spouse's fortune, creates a much larger estate tax on the remaining spouse's fortune than would have been the case had the first spouse's fortune been left in trust rather than having been given outright. So much so in fact that all of the remaining fortune of the first spouse and some of the fortune of the second spouse could be taken in estate taxes. Thus one fortune is wiped out and the second is impaired because the individuals failed to seek proper advice on estate taxes.

The close relationship between the investment adviser and/or investment counselor and his client very often leads to the request by the client that his adviser become an executor and/or trustee under his will. As a consequence the adviser, in attempting to carry out the terms of a will, learns in short order the harm of the client's failure to disclose to his attorney all of the background factors involved so that a proper will could be drawn.

Because of this danger, one of the first things an investment adviser and/or counselor asks of a client is to see his will, for, as I mentioned in the beginning, it is the adviser's or counselor's job to protect the client's fortune, not only during his lifetime, but after his death. If the will is drawn so as to jeopardize the fortune after the client's death, the client is promptly advised to see his attorney and to tell him the things he should have revealed in the first place.

In a word the job of the investment adviser and/or counselor goes far beyond merely taking care of his securities.

The success or lack of it in investment management is the result not only of facilities and modern methods, but of successful experience in all the phases of the economic cycle, and native good judgment. The partners and other senior personnel of firms engaged in this business have had many years' experience in trust, estate and tax matters as well as in the details of investment management. They have widespread acquaintance with industrial and financial executives throughout the United States and abroad, which provides an important contact with the ever changing currents of commerce and industry. And they have a full realization that the welfare of the clients of the firm, and the firm's own success, are identical.

The first essential in managing an investment portfolio is the development of a basic program for the individual investor. This is a planning operation which requires careful study of the needs and objectives of the individual. What are his income requirements? What is his over-all income tax position? What degree of risk can prudently be accepted in the process of seeking capital appreciation?

The information required to formulate a sound program is necessarily confidential. Obviously, best results are obtained when a relationship of complete confidence and discretion has been established. Does the client anticipate the future inheritance of additional property, outright or in trust, and of what nature? What are his own testamentary plans? Has his will been recently revised? Has he taken full advantage of the tax savings frequently available from the use of life insurance, or from a planned program of gifts?

Success in the management of an investment portfolio depends primarily on two types of decisions, both products of research. The first of these is based upon studies of underlying economic conditions and trends. Upon basic conclusions on these matters rests the prudent apportionment of funds among different types of securities for safety, income or appreciation, always within the framework of the individual program.

The second type of decision is based upon studies of industries and the analysis of individual companies and securities. Conclusions arrived at from this research control the selection of individual securities for retention or purchase. The research staff of firms in this business is composed of men with many years' experience in this work, who are constantly engaged in the observation and study of general business and economic developments and of the affairs of hundreds of corporations, including fast growing young enterprises as well as the established leaders. The firm's own research staff is supplemented by the employment of outside technical experts in special fields as, for example, petroleum and public utilities.

The portfolio of every investment advisory client is under continuous supervision. Any important change in underlying economic conditions is the occasion for a review of each account. The security holdings of each client are cross-indexed, and a change in the position of any security calls for a review of every portfolio in which such security is held. Suggestions and recommendations are submitted to each client in writing, with appropriate explanations, for approval or comment. No action involving security changes in a client's portfolio is usually taken without the specific approval of the client.

The safekeeping of securities, collection and disbursement of income, and appropriate action regarding proxies, rights and subscription warrants are regular functions both of trust companies and stock exchange firms. The convenience of a custodian account to the investors is obvious. Such an account automatically provides the records necessary for the preparation of income tax returns. It relieves the investor of burdensome details and permits extended absences without interfering with efficient investment procedure.

Some firms make available to their advisory clients, at no additional charge, the custodian services of leading New York City banks and trust companies. The bank selected then opens a custodian account in the name of the client. Registered securities remain in the client's name or in the name of the bank's nominee as the client chooses. Principal cash is kept separate from income cash. Income is collected promptly as it becomes due and is disbursed monthly or otherwise as instructed by the client.

My firm (and this is not intended as a plug but merely to inform you as to certain operations in the business itself), as a member of the New York Stock Exchange, maintains a complete brokerage service. With two memberships in the New York Stock Exchange it is possible to have at least one partner of the firm on the floor of the Exchange at all times during trading hours. This not only helps to protect the confidential nature of the client's affairs, but eliminates the errors or harmful delays which sometimes arise when responsibilities are divided among different organizations.

Advisory service, generally speaking, costs about ½ of 1% per annum based on the value of the fortune under supervision. Fees for very large accounts are negotiated. Under present Federal tax laws the net fees paid for this service may be deducted from taxable income, in computing income tax liabilities, to the extent that the service relates to other than tax exempt securities. Thus an investor in a 50% top tax bracket finds that half of his net fee is offset by an equivalent reduction of his Federal income tax. A number of states permit similar treatment.

Farr & Co. Admits

Farr & Co., 120 Wall Street, New York City, members of the New York Stock Exchange, will admit Francis G. Geer and Helen G. Downs to limited partnership on Sept. 28.

With Greenfield & Co.

Frank J. Smith, formerly with J. Arthur Warner & Co., Inc., is now associated with Greenfield & Co., Inc., 40 Exchange Place, New York City, in their Trading Department.

With Merrill Lynch

(Special to The Financial Chronicle)

CHICAGO, Ill.—Philip J. Charleson, Eugene T. Detmer, Sam J. Duva, Herbert C. Eggleston, Robert T. Mortimer, Robert J. Pierson, Jr., and Bernard G. Ziv, Jr., have been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building.

Continued from first page

War, Taxes and Security Prices

1939. (Common stock prices are about 50% higher.)

(3) Plant capacity has about doubled (not counting numerous war plants some of which are now being de-moth-balled).

(4) A completely built navy and merchant marine exists (shipbuilding took about a quarter of the steel industry's output in 1944-45); so do huge encampments, air bases, and training facilities in sufficient number and size to support an armed force of over 12 million.

(5) After three years of record buying, the inventory of hard goods in the hands of consumers—from automobiles to houses—far surpasses any previous boom period, while 1939 followed a period of semi-depression. Business inventories are close to record peaks.

(6) Federal income tax rates are more than double those of 1939.

(7) The national debt has more than quintupled since 1939. Then it was 52% of Gross National Product; now it is over 95% of GNP.

(8) The atomic bomb. Later, perhaps, the hydrogen bomb.

(9) No clear-cut end to a possible worldwide Korean-type conflict presently visible, whereas in 1939, it was evident that the defeat of Germany, and later Japan, would clearly terminate the war.

(10) The present conflict being primarily social in character as contrasted to the predominantly national aspects of the last war, creates essentially different as well as infinitely more complicated problems of strategy and logistics.

Admittedly, the above is an incomplete list, but it will serve our purpose by illustrating the striking differences between 1939 and 1950. If it is granted that these differences do exist and are of fundamental importance on the one hand; and, on the other, that the chances of the Korean War eventually spreading to other areas with other participants are better than even—it would seem to follow then that the size, i. e., the cost, of the war effort needed for victory would control the course of the economy for the indeterminate future.

In this connection, it would be well to bear in mind that the size problem means men as well as equipment. Since 1939, two very large pay and allowance raises have been granted armed force men; a third is now in the works. Equipment cost increases are suggested by the following: Infantry division in 1944—$14,500,000, now $74,000,000; an armored division in 1944—$30,000,000, now $199,000,000; destroyers in 1939—$7,000,000, now $40,000,000; light tanks in 1939—$27,000, now $225,000; B-17 bomber in 1939—$300,000, now B-36's cost, $3,000,000 plus. This size problem, of course, would be reflected first in the budget, which is the financial blueprint of the war effort itself.

The Budget and General War III

In putting together the estimates reflected in the different budgets shown in Table No. 1, the following conditions were postulated:

(1) The foot soldier has not been made obsolete by the atomic bomb and other push-button weapons, as the Korean War has so painfully demonstrated. The **direct** cost per armed force man will not exceed $12,000 annually. (This allows for a 20% increase over pre-Korea prices.)

(2) No one knows when, or even if, the Korean conflict will spread under the force of events. Therefore, the projected budgets are shown as **phases** of a developing general war with no assurance that Phase No. 1 might not quickly telescope into Phases No. 2 and No. 3, or even into No. 4, within a year or so. The only observation that can be made at this time is that raising, training, and equipping an armed force of the size of Phase No. 4, 12,000,000, takes considerable time—at the very least, two years.

(3) Financing the annual Federal deficits can be done at a weighted annual cost of 2%.

(4) The appropriated funds are actually spent in the particular phase year—not always the case, admittedly.

(5) Pre-tax, corporate income, it is estimated, would likely follow the last war's pattern, showing a declining ratio to Gross National Product after reaching a peak in Phase No. 2. Personal income would increase by Phase No. 4 to the extent that wages and salaries and proprietors' income are augmented, estimated at about 15% (from June 1950 levels).

The above assumptions are perforce arbitrary, and so subject to debate. However, our sole objective in employing them is to try and get some helpful idea of the likely nature of the economy as it moves towards an all-out war status.

The budgets for 1944, the peak war year, and 1950, are shown for contrast. In setting up the other budgets, the prime objective is to show the possible impact of the increasing war effort on **taxes**, the **deficit**, and the national **debt**. These will be the subjects treated below.

Taxes

Phase No. 1, the Korean phase, has not called so far for any burdensome increase in taxes. However, Phase No. 2, which could come about with another "Korea" or a failure of localize the present conflict, would call for the reimposition of the top tax rates of the last war in order to keep the deficit within bounds. Phase No. 3 doubtless would be merely a transitional period before No. 4, the all-out Phase. Even with tax rates increased 20% over No. 2, Phase No. 3's deficit would be enormous, the highest on record. Phase No. 4, with the corporate rate double that of 1950 and the personal tax rate almost trebled, would still find us with a whopping deficit of over $100 billion.

Deficits and the National Debt

Even with the back-breaking tax rates suggested above, the mounting deficits could only mean a very sharp rise in the National Debt. If, for instance, going from Phase No. 1 to Phase No. 4 took four years, the debt would jump by 85% over today's near-record level. Whereas in 1944, the peak war year, the debt load exceeded Gross National Product by only 8%, on achieving Phase No. 4 the National Debt would be 32% higher than the GNP. This is the true measure of the power of the fuel that could light the fires of a disastrous inflation. That is to say, a price conflagration **could** be set off, since the creation of money would far outstrip the production of goods—were not the dangers of such a development now so widely feared. It is presumed, then, that proper steps will be taken, and in time. The possible impact on consumer buying power of the combination of much higher taxes and the taking of such preventive steps, **notably forced savings through government war savings bond "purchases,"** is discussed below.

Impact on Consumer Buying Power

Table No. 2 again presents the various possible wartime phases contrasted with 1944 and 1950. The prime considerations here are, What happens to "Take-home Pay"? What is the likely effect on Personal Consumption Expenditures?

Take-Home Pay

Take-home Pay (THP) is the amount left for discretionary spending after taxes and war savings bond "purchases" are deducted. The income taxes were discussed previously. War savings bond purchases financed 24% of the deficit in 1944, 55% in 1950 (due to the small deficit), and now an estimated 15% of Phase No. 1's deficit. In view of the current rate of redemptions, the imposition of forced savings bond purchases may very well be seen in Phase No. 2, certainly in Nos. 3 and 4. The reasons are that most non-bank bond buyers such as insurance companies, savings banks, etc., at most would be able to absorb only about $8 billion, leaving commercial banks and individuals $18.5 billion of Phase No. 2's $26.5 billion deficit to assimilate. If the last war's peak buying rate of savings bonds by individuals is assumed for Phase No. 2, they will take $6.4 billion, leaving $12.1 billion for the banks. This latter will be a direct addition to the money supply and theoretically inflationary. From that point on, to reduce the almost certain rate of increase in the money supply, a further substantial stepping up in the rate of forced bond "purchases" would be imperative and is indicated in Phases Nos. 3 and 4. Even so, the money supply would be inflated enormously in the latter two phases (by $41 billion and $57 billion, respectively). The combined effect of these relatively modest (i. e., in view of the rate of expansion in the money supply) forced bond "purchases" and income tax payments on Take-home Pay, is quite devastating and suggestive of the size of the cut in living standards that would have to be made in an all-out war if the present social order is at the same time to be preserved.

Personal Consumption Expenditures

Personal consumption expenditures (PCE) necessarily would have to contract very sharply. Even if they remained as high a percentage of THP as in the June 1950 quarter (unlikely, since such a large amount of the buying was done on credit, and also partly through the non-recurring GI Insurance dividend), the drop would be enormous. Taken as a relative of Gross National Product, PCE was 68% in the June 1950 quarter; by Phase No. 4 it would drop to 41%. This reflects the vastly increased cost of total war and the concomitant adverse impact on living standards. It is in sharp contrast with the last general war. Each year, from 1940 onward, PCE expanded substantially, since taxes were **relatively** light, a huge total of unemployed found work, and no forced bond "purchases" were required. There seemed to be plenty of candy for everyone then. This time, a general war economy is hardly likely to be so sweet.

General War III and Security Prices

In view of the foregoing, it is pertinent to ask, what would be the effect on security prices of such an acceleration of the war economy? Table No. 3 may shed some light on this question.

As for common stocks, by correlating post-tax corporate profits with the Dow Jones Industrial Stock Average, a rough indicator of the relative worth of such earnings in terms of stock prices may be had. Taking the second quarter of 1950 as 100, the $19.5 billion annual rate of profits were capitalized at the high of about 229 in terms of the Dow Jones Industrials. The manner in which the market appraised the earnings for the 12 months ended June 30, 1950, was about 206 on the Dow. By dividing the 229 high into 206, an index figure of 90 is obtained—a fairly close approximation of the earnings index of 93.

By applying this method to the post-tax profits of the various war phases, some idea of the possible value of the projected earnings may be gleaned. So long as the economy only had to cope with Phase No. 1, it would prosper, "A nice comfortable war." Even Phase No. 2 ("two Koreas") would not be too difficult to deal with. In both phases a high degree of selectivity would be necessary, however, with the heavy goods "war babies" strongly emphasized. It is Phases 3 and 4 that would test fully the nation's ability to survive, since they would likely blend into one another. In the latter event, it goes without saying that the stock market would suffer a severe deflation. Few stock groups could escape. If anything, Table No. 3's suggested price levels for the Dow Jones Industrials are on the optimistic side. In 1942, for example, with a far less threat to the country's solvency, the Dow Jones averages fell below 100.

As for bonds, an entirely different and very selective outlook is indicated. The supply of money would expand greatly while the demand (i.e., new money bond issues) would contract. Little or no private residential or plant expansion would be permitted. Such plant building as there was would largely be government financed. Inventories would be stable to declining, with rapid turnover obviating the necessity for much of the present bank loans. Public building of roads, bridges, schools, hospitals, housing, etc., would inevitably be sharply curtailed. Thus, outside of the issues of the Federal Government, which largely creates its own money supply at the time it sells its bonds, the outstanding amount of corporate and municipal bonds would be the sole available outlet for a hungry and growing **private** money supply. Unlike a **cyclical** deflationary period, even poor corporate credits would be safe, since bond interest is a prior charge to income taxes. Their purchase in the open market would be a major means of employing the issuer's surplus funds.

Tax-exempt bonds would naturally benefit most pricewise due to their tax sheltering features which would become increasingly more valuable. In the Table, the possible extent of the decline in tax-exempt yields is essayed by correlating the "Bond Buyer's" Yield Index with the projected money-supply-demand ratio. It might be mentioned that the estimates are on the modest side, despite the fact the projection calls for new all-time low yields (highest prices) even exceeding the record levels of early 1946.

Conclusion

In reviewing the foregoing, it is well to remember the entire position rests upon an eventual spreading of the Korean conflict to other areas. At this time, because of the political and military commitments already made, particularly by the United States, it is our view that such a development is growing increasingly more probable. If it does spread, as we suggested at the beginning, it is highly unlikely that the experience of the most recent general war will be of much help as a guide in prosecuting the new one. The possibility, even probability, of a major deflation of profits, particularly in consumer goods industries, occurring simul-

TABLE I

Budgets for General War III

(Billions of Dollars)

	—Size of the Armed Forces (Millions)—					
	11.4	1.3	2.0	4.0	8.0	12.0
	1944	1950	No. 1	No. 2	No. 3	No. 4
OUTGO (U. S.)						
War:						
Direct	{90.0}	12.4	24.0	48.0	96.0	144.0
Indirect		4.6	9.0	13.0	21.0	29.0
Other:						
General	4.2	17.3	19.0	20.0	21.0	22.0
Interest	3.2	5.8	6.0	6.5	7.0	9.9
TOTAL	97.4	40.1	58.0	87.5	145.9	204.9
INCOME (U. S.)						
Taxes:						
Corporate income	13.5	11.3	15.3	20.0	25.3	30.0
Personal income	20.8	14.7	18.4	28.0	35.1	49.0
Other	4.4	8.0	8.0	10.0	12.0	15.0
Miscellaneous	4.8	3.0	3.0	3.0	3.0	3.0
TOTAL	43.5	37.0	44.7	61.0	75.4	97.0
DEFICIT	53.9	3.1	13.3	26.5	70.5	107.9
DEBT						
Total	232.1	257.3	270.6	297.1	367.6	475.5
Interest	3.2	5.8	6.0	6.5	7.9	9.9
PRE-TAX INCOME						
Corporate	24.3	29.3	34.0	36.0	38.0	40.0
Personal	165.9	210.0	218.0	224.0	234.0	245.0
Ratios:						
1. War cost per man (total)	$7,900	$13,100	$16,500	$15,300	$14,600	$14,300
2. War cost financed by debt	59%	18%	40%	43%	60%	62%

TABLE II

Impact on Consumer Power

(Billions of Dollars)

	—Size of the Armed Forces (Millions)—					
	11.4	1.3	2.0	4.0	8.0	12.0
	1944	1950	No. 1	No. 2	No. 3	No. 4
Personal income	165.9	210.0	218.0	224.0	234.0	245.0
Disposable income	145.0	195.0	200.0	196.0	200.0	199.0
Savings Bonds (net)	12.8	1.7	2.0	6.4	21.2	43.0
Take-home pay	132.2	193.3	198.0	189.6	178.8	156.0
1944 prices (73.5% of June '50)	132.2	142.0	146.0	140.0	132.0	115.0
Personal cons. expenses	111.6	181.8	186.0	178.0	168.0	147.0
Personal cons. exp. as a % of THP	84%	94%	94%	94%	94%	94%
	1940	1941	1942	1943	1944	1945
Personal cons. exp. (actual)	72.1	82.3	91.2	102.2	111.6	123.1
Federal deficit	53.9	3.1	13.3	26.5	70.5	107.9
Financed by Savings Bonds	24%	55%	15%	24%	30%	40%

TABLE III

General War III and Security Prices

	—Size of the Armed Forces (Millions)—					
	11.4	1.3	2.0	4.0	8.0	12.0
	1944	1950	No. 1	No. 2	No. 3	No. 4
Stock Values:						
Corp. post-tax earns. ($ billions)	10.8	18.0	18.7	16.0	12.7	10.0
Index	56	93	96	82	65	51
DJ Industrial Average	140	206	220	188	149	117
Index	61	90	96	82	65	51
Bond Values:						
Private money supply ratio to demand	167	95	103	115	153	223
Equivalent yields on Bond Buyer's Index	1.66	1.99	1.94	1.86	1.59	1.19

NOTES:

1. Second quarter 1950 corporate earnings ($19.5 billion annual rate) = 100
2. Second quarter 1950 high on DJ Industrials (229) = 100
3. In computing money supply-demand ratio and Bond Buyer's Bond Index, 1937-41 = 100

taneously with a total war, should not be too quickly dismissed merely because it never happened before. In the same way that the late post-war economy defied the law of economic gravity, a general war economy under today's conditions would probably go on making new rules of its own as it unfolded.

Finally, it seems clear that, this time, capital, apart from a heavy war damage potential, would take almost as bad a beating as labor in the event of a general war, even while far from financing it on a pay-as-you-go basis. In a very real sense, Phase 4 would mean war communism, with the forced war savings bond program constituting a temporary capital levy, absolutely necessary if the social fabric of America is to be held together at all. Thus, while in Phase No. 1, in which we now are, and even Phase No. 2, toward which we are rapidly moving, the level of post-tax profits would be high, the trend would be downward. This could at best make for a period of uneasy stability in common stock prices with the threat of a sudden precipitation of Phases 3 and 4, with their deflationary impact on share prices ever present. Accordingly, it is difficult to be impressed by the hedge value of equities at this time against an inflation that may very well never be experienced. For the intermediate future, the type of security offering the one most needed protection against an assured falling living standard of the investment dollar, it seems to us, is tax-exempt bonds. War and Profits may come and go but Taxes we always have with us. General War III's economy should prove no exception.

Walter V. Harvey

Walter V. Harvey, partner in Beer & Co., New Orleans, La., died Sept. 5.

Max Model

Max Model, partner in Hirsch & Co., New York City, died on Sept. 11.

C. B. Briscoe Company

KNOXVILLE, Tenn.—C. B. Briscoe has formed C. B. Briscoe Company with offices at 1105 West Clinch Avenue, to engage in the securities business.

Securities Salesman's Corner

By JOHN DUTTON

Let the Prospectus Help to Sell Trust Shares

There are salesmen who shy away from the detrimental aspects of what they are selling. This happens in every line. Nothing is perfect. But you can face right up to the rough spots and turn them into less potent objections by bringing them up yourself. You can turn a seeming objection into a reason for buying, or at least nullify it as a reason for not buying. The man who sells a higher priced car says, "This car will cost you more in the beginning, but you'll make it up in comfort and pride of ownership. It will pay you in the long run. You can't get something good for a little—why not get something worthwhile for a change. You deserve it don't you?"

The man who goes out to sell trust shares and tries to ignore or minimize the sales load is only looking for trouble. He's the fellow who is bound to hear the objection "It costs too much to buy a mutual fund." But if he says something like this he's not going to have that trouble: "Mr. Prospect, this is a long-term investment. It is somewhat like a piece of good real estate, or any other valuable property. Some years it may be worth more and some years less. Don't you ever buy a mutual fund, either from me or from anyone else, unless you expect to hold it as a treasured and permanent investment. Don't buy it if you expect to sell it today or tomorrow, or even a few months from now.

"There is an acquisition cost here of about 8%. That covers the expense of putting this fund together, of distributing it throughout the country, of advertising it and of paying investment dealers and their representatves to come to your door and tell you about it. Over a period of years you can amortize this cost and you just cannot get the advantages of broad diversificaiton in a modest investment such as we are discussing unless you do it through one of these mutual funds. It is all explained right here in the prospectus."

In other words don't try and promise people the moon—don't hide anything. Tell them where they stand. Some of them may not like it, but you haven't missed much if you have to pass up anyone who isn't willing to pay the legitimate marketing cost of your product.

Regarding yields, why not make it plain that dividends may fluctuate? Why not mention that 4% to 5% is a mighty good average return on an investment that actually covers a cross-section of what in many cases represents the cream of American industry. Mention these points without an apology—there isn't a life insurance company in the country that wouldn't give almost anything, if they could obtain an income on their investments at something near this return.

And there is another point—people like to hear a man tell them the bad points as well as the good. It is the strongest kind of salesmanship. When you lay it on the line first, you won't have to worry about making explanations and apologies later on. That is the only way to sell anything—straight out in the open. There are enough advantages in the average fund to more than make up for the disadvantages of acquisition cost and modest return. What counts is where a person is financially five years from now—not whether he gets a higher return for a year or two on a highly speculative investment and then loses a large part of his principal.

New security buyers especially should appreciate this kind of plain talk—also those who are fundamentally looking for a place to put their surplus at a fair rate of return, and with some assurance of getting their checks regularly. The speculators are always with us but I wouldn't waste much time trying to educate them—I'd rather look for new investors and people who don't want something for nothing.

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How Shall We Finance Our Arms Program?

the fact that we have the unpaid debt of World War I and the unpaid debt of World War II to reckon with—

Mr. Terborgh: There are two questions here. One, how much should corporation be asked to contribute in taxes in this defense emergency?

Mr. Terborgh: And the second is what form should that contribution take. If you need $5 billion more, if you need $10 billion more, you have the alternative of taking it by raising the regular corporate rate on income or taking it by putting on an excess profits tax.

Senator O'Mahoney: I agree with you on that. We ought to raise the regular corporate rate.

Mr. Terborgh: It is now raised to 45% in the pending bill.

Senator O'Mahoney: Yes, and many business managers have told me that it ought to be not less than 50%.

Mr. Terborgh: I am not arguing that it shouldn't be raised further. That is the preferable alternative to putting in, in a long pull situation, with no end in sight, what is essentially an emergency tax device for all-out war.

Chairman Granik: Senator, do you feel your excess profits tax would destroy incentive?

Senator O'Mahoney: No, I don't, for the precise reason I have already stated.

The Incentive Factor

Mr. Terborgh: I disagree with that. I think that if you leave a corporation only 15 cents out of the dollar, you have gone very far toward destroying incentive. I think a 15-cent dollar is too small to maintain incentive. Not out of all dollars but out of the top dollars, and those are the ones you are playing with when you are in a business subject to the excess profits tax.

Senator O'Mahoney: This amendment that Senator Connally and I have proposed bears the same limitation that was contained in the World War excess profits tax, namely, that the total take from the corporate profits, that is the combination of income tax, surtax, and excess profits tax, should not exceed 80% of the total. So it is 80 cents out of every dollar of profits when you get into these high regions of profit. So the principle here is to let the burden be carried by those who are best able to carry it. May I make another suggestion? It is this: Taxation is a practical problem. We have got to do what we can when we can do it. So at the present moment the simplest thing to do is to get the increase from income taxes and the increases from corporate taxes and then plug the loopholes. We haven't been very successful in plugging the loopholes.

Mr. Terborgh: I want to return to this question of incentives.

Chairman Granik: Do you feel that 85% excess profits tax would contribute to inflation by destroying the incentive for economy and efficiency?

Mr. Terborgh: I think it does. I think when corporations can keep only 15 cents out of each dollar, they have too little incentive left to keep costs down and to practice economy. This is not a painless process. Don't fool yourself. It takes real determination to keep costs down. I feel that this 85% rate would have a very serious inflationary effect in the areas in which it applies. It has a bad effect in another way. I believe that in general the most profitable corporations are the ones that are giving the greatest service to society, and the ones that ought to expand their position in the market. This tax falls with prejudicial effect, with special effect, on the successful, up-and-coming and expanding corporations.

Senator O'Mahoney: I think that is rather a theoretical and not a practical argument. The excess profits tax will fall on those corporations which raise prices. If profits do not rise to the $35 billion mark upon the average or the $40 billion mark, then the returns will not be great. So the effect of an excess profits tax would be to keep prices down and therefore to fight inflation. I want to add just this one word: I think those who say, even when Mr. Terborgh says it, that corporations would waste money rather than pay it to the government in a time of great crisis, are not very complimentary to business management and I don't believe it is the fact. I don't believe that they are so motivated.

The Draft and Profits

Senator O'Mahoney: The unfortunate thing, Dr. Terborgh, is that in this great emergency of the war, under the Selective Service Law we take the young man from whatever business he is in. We take him. We take his body. We take his life sometimes. In those circumstances I cannot understand why anybody should want to be tender with the excess profits that the record shows are made out of war. Of course there will be difficulties—

Mr. Terborgh: Your adjective begs the question. The mere fact that a company is making more profits than it made during this base period or more than 80% of the base period profit doesn't in any way indicate excessive profit. It may be excess by your statutory definition, but not excessive from the standpoint of public policy.

Chairman Granik: What is excessive?

Mr. Terborgh: In my judgment any profit that is made in fair and open competition is a fair profit. It may be a high profit, but it is not excessive because it is high. It indicates that that company has performed a more valuable service for the public than its competitors who are making low profits, or are in the red.

Senator O'Mahoney: Let me withdraw the word "excessive" and substitute the word "high." The issue was stated very specifically by Warren G. Harding in his inaugural speech as President of the United States when he said he could envision the time when a republic would take all of the profits above normal, and during the Hoover Administration a Special Commission on Taxation for War reported that 95% of all profits above normal should be taken.

Summaries

Mr. Terborgh: I think it is gratifying that we are both agreed that this defense program should be financed on a pay-as-you-go basis. I say that as to the program that is now announced. I would adhere to that view if the program were twice the size now contemplated.

I should like to make a second point that has not been mentioned here this evening, and that is that with this burden of armament growing it is essential to cut back as far as possible all government expenditures that aren't vital to the defense program. I should like to add that we would be imprudent and shortsighted if we took on a long-term load like this and didn't finance most of it from current consumption.

Senator O'Mahoney: We should fight inflation and support the war by every possible economy on the home front. We should cut all non-defense expenditures by Government. We should cut down bank loans. We should cut down consumer credit. But we must raise revenue. We cannot afford to pile a new war debt upon the old war debt. Since the tax bill that is now before Congress provides for only $4½ billion with which to balance the budget of $16 billion $700 million of expenditures, the only practicable way to increase the revenue is to put on an excess profits tax and to put it on now.

Ralph Moberly With I. M. Simon & Co.

Ralph M. Moberly

ST LOUIS, Mo.—Ralph Moberly has become associated with I. M. Simon & Co., 315 North Fourth St., members of the New York and Midwest Stock Exchanges. He was formerly for many years with Edward D. Jones & Co.

Phelps, Fenn-Lehman Syndicate Offering Mass. Housing Bonds

A syndicate headed by Phelps, Fenn & Co. and Lehman Bros., both of New York, is making public offering of $9,875,000 1¾% bonds issued by various Massachusetts housing authorities and guaranteed as to payment of principal and interest by the Commonwealth itself. The bonds, dated Oct. 1, 1950 and due serially on Oct. 1 from 1951 to 1990 inclusive, are being offered to investors at prices to yield from 0.80% to 1.70% for maturities from 1951 to 1981 inclusive, and at dollar prices ranging from 100 to 98 for the subsequent maturities. The bonds are legal investments, in the opinion of the bankers, for savings banks in Massachusetts and Connecticut and are interest exempt from all present Federal and Massachusetts income taxes.

The names of the issuing authorities and the amount of bonds involved are tabulated here:

Authority	Amount
Agawam	$ 331,000
Dalton	194,000
Dedham	804,000
Fall River	1,936,000
Fitchburg	1,615,000
Ipswich	272,000
Mattapoisett	120,000
Methuen	590,000
Milford	744,000
Nahant	148,000
Springfield	2,332,000
Westborough	152,000
Woburn	637,000

Continued from first page

As We See It

New Deal and now cling to its more recent counterpart, the Fair Deal. It is they who want controls, with or without much excuse. It is they who insist upon labor monopolies. It is they who would put business into strait-jackets. It is they who apparently have no conception of the true spirit of the American system.

But it would be more profitable, we are sure, to take brief note of the real dangers to our system here at home, in an effort to come to some realization of their nature and of what is required to make ourselves secure against them. Senator Lehman seems to think that the real dangers come from poverty, ignorance and misery. We think there are even greater dangers. We must admit, though, that with all the smooth-tongued politicians in the country constantly talking about poverty as if it were something for which the American system is responsible, and about misery as if somehow the other fellow has put a plague upon the sufferer, there is always the possibility of demagogues persuading the ignorant that the way to banish these evils is to adopt some system other than that which has made us the envy of the world. If "we" must banish poverty, abolish misery, and replace ignorance with wisdom in order to save liberty, then we are really in danger —the more so if all this must be done by the politicians.

Danger From Panaceas

But had we not better be a little more concrete and specific in our diagnosis of our own danger and of the remedies available for its removal? We may say without fear of successful contradiction that one of the gravest dangers by which we are faced today is that which stems from the quacks who, through panaceas, would actually fasten poverty upon us permanently. The banishment of poverty is a consummation most devoutly to be wished, and has been an "objective" of the politicians, the memory of man runneth not to the contrary. It is an ideal which, of course, no man now living will ever see realized. The task is monumental, to say the least, and promises to do any such thing in the calculable future spring either from careless politics or from deep ignorance.

But lest we go astray on the subject, let it be simply stated that poverty never will be abolished except by continued improvement in per capita production. To be sure there may be some question of the distribution of income, but even the relatively enormous income of the people of this country would not, if evenly distributed, abolish poverty. Now the way to make certain that no one really is in want is to create an atmosphere in which hard work, productivity, and vigorous business can and will flourish—flourish permanently (with temporary ups and downs, of course) not simply for a time to be followed by widespread hardship and misery.

Greenbacks Not the Way

Now let's be a little more specific. Such permanent large scale production will not be promoted by the simple expedient of printing greenbacks, even if the printing is done in some modern half-concealed way. Point is given to this comment by the recent behavior of the Treasury in the face of a long period of heavy defense expenditures, if not actually large scale war. We find the Administration clinging to the idea that the Government must have what money it wants as nearly free of interest as a market-rigging Federal Reserve System can provide. It was a disgraceful performance, and we are very happy that the Reserve authorities did not this time as so often in the past merely bow to the politicians. But, of course, what has been accomplished, even if the Administration presently acquiesces, is hardly a drop in the bucket. Merely to ask the Treasury to pay a fraction of a percent nearer what it would have to pay in a free market is hardly of great importance in and of itself.

The attitude of the Federal Government toward the problems involved in financing itself has for a decade and a half, or more, been dead wrong. Its attitude toward the money market and the credit structure of the land was dead wrong long before that. We have pursued such a course for so long now that the danger inherent in it grows daily. Once it is generally accepted as permanent, we shall begin to reap the rewards of our sowing in ways that we shall not like. If poverty in the future is to be prevented or at the least kept within bounds, we could do worse than put a prompt end to our tinkering with money, credit and banking. Indeed, if we persist in refusing to do so our fight against poverty, no matter what its nature otherwise, is more or less certain to fail.

And in how many other ways must the Fair Deal change its course if it is to make real headway against poverty! And none of them of the sort that Senator Lehman and his confreres would suggest! Talk of abolishing poverty hardly lies in the mouth of a Fair Dealer.

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Public Relations and Training Programs in Financial Industry

the accuracy and objectivity of statistical and research material published by the brokerage firms.

By 1940, through the combined effort of the Exchange and the Federal authorities, any hint of manipulations of security prices had been wiped out. However, a large portion of the people still believed there was a mysterious "they" who put prices up or put them down at their will.

It is hard to say categorically exactly which criticism was directed at the product and which was directed at the package. It is my belief, however, that the vast part of the criticism was directed at the package and not at the product.

The Exchange itself had introduced numerous reforms during the ten years from 1930 to 1940. Under government auspices independent security dealers had organized the National Association of Securities Dealers to police the over-the-counter markets. Of course, new regulations under the Act of 1933 and the Securities and Exchange Act of 1934 had been erected during this decade of 1930 to 1940.

It seems to me that the Roper survey proved that despite the fact that the product itself had been vastly improved, the package had been changed little, if any. In other words, Wall Street did not have a public relations program designed to tell the public about the new product it had for sale.

Our firm was particularly conscious of this failure to develop a public relations program designed to tell the world about the changes that had taken place. In fact, we went even further. We had another survey conducted at our own expense to find out more specifically and in greater detail the things about our own operations which our customers did not like or which they did not understand.

We had to go to an outside firm to have that survey made because experience had shown us that our customers wouldn't tell us the truth about our own shortcomings. They were just too polite. They would take their hair down and tell some outsider, and we learned a tremendous amount by using that method ourselves.

When we had this information before us, we sat down and consciously adopted a set of policies designed to make our own operations conform with the wishes of our customers. We determined that wherever humanly possible we would run our business as the customers wanted it run. In cases where things occurred which we could not do anything about—for example, the inevitability of stocks going down in price—we would endeavor to explain to the public and the customers why these inevitable things occurred and warn them beforehand of the risks and uncertainties involved in the investment process.

Making Business Conform to Public Wishes

Very briefly I would like to discuss with you some of the specific things that we had to do to make our business conform with the wishes of the public.

It was the habit in Wall Street, and is still in some quarters, to charge customers for a variety of small miscellaneous services which the brokers frequently perform, such as the safekeeping of securities, collection of dividends, the carrying of inactive accounts, providing investment advice. These charges, while fully justified on a cost basis to the broker, annoyed customers out of all proportion to the actual financial importance. So we eliminated all such charges because whatever it cost financially, we gained in good will, and hence increased the business more than enough to make up the loss in direct revenue.

As we eliminated those service costs, we then began to get the real story directly from the customers who told us that they had been annoyed for some years and were delighted when we finally changed our policy about service charges.

The public told us, too, that the one reason they lacked faith in the brokerage industry was because salesmen on whom many relied for disinterested advice were in fact paid on what amounted to a commission basis. The public reasoned that because of the commission method of payment, the advice of customers' men could not be truly objective.

We attacked this problem directly by putting our customers' men, whom we renamed account executives, on a flat salary, and we did that to take the temptation away from our people of ever selling to our customers something that was not suited for the best needs of our customer.

The public also told us that they did not appreciate brokerage employees calling them up to offer gratuitous advice or give them market tips. They said that they wanted factual information, not tips. We made it a rule that we would not offer gratuitous advice, but our independent research department would continue to be available to help customers who wanted help and who asked for help.

Also the public seemed to feel that brokers recommended a security only when they owned the security and wanted to get rid of it. So we made it a policy to disclose the holdings of our firm or any of our partners in the securities which we described in our printed literature. Incidentally, we have discovered when the information is available, few people seem to be interested in asking for it. Apparently, most people are interested in this information only when it is denied them.

Investors and prospective investors also told us they considered the financial soundness of a firm one of the most important considerations in selecting a firm to handle their business.

This, coupled with our determination to take as much of the mystery out of the business as possible, led us to publish each year a complete annual report, giving not only our balance-sheet statistics, but also an income statement, and a great variety of the operating statistics of the firm.

Our annual report in 1940 was the first ever published by a brokerage firm, and to date no one has followed our example. Other firms do publish balance sheets, but no firm has ever published an income statement.

This report has proved to be one of the most effective devices for telling the public how we operate and has a strong tendency to break down the iron wall of ignorance that has surrounded the entire industry.

In addition to these policy decisions designed primarily to improve our product and to make it conform with what the public wanted, we also tried to redesign the package. We embarked on a sustained advertising program planned to inform people of the investment process and to sell our firm as the place to come for investment and brokerage services.

Because brokers do not manufacture their own merchandise, but sell securities of corporations, we undertook a really substantial publishing venture to teach the public more about the industries and the companies whose securities were available to investors. Our industry booklets, like those you have received, are designed to accomplish a public relations and a sales promotion job. Public relationswise, they are intended to teach all who read something of the fundamental economics of the free-enterprise system. From the sales promotion point of view, they are tools to help our customers invest intelligently.

Our booklets, like the "How to" series, that is, the "How to Invest" and the "How to Read a Balance Sheet" series, which I think have been distributed, have the same objectives. Those are somewhat broader in their approach.

To justify the existence of Wall Street and the financial community, it must make some contribution to the economic well-being of America. In other words, to go back to my analogy, Wall Street must have a good product. In this day of pressure groups, when the continued existence of any institution may depend upon public acceptance, it is absolutely essential to give valuable service to the economy. We must know how this economic service is performed; we must show its value to the economy as a whole, and probably the most important of all we must show its value to individuals. In other words, we must put it into an attractive package.

That is what a good public relations program should be designed to do. I am acutely conscious of the fact that we still have a long, long way to go, because recent studies of the public attitude are in one sense encouraging and in another sense rather depressing. The public attitude toward the securities industry has improved somewhat since the Roper survey in 1939, and I say "somewhat." The combined activities of the Investment Bankers Association of America, the National Association of Securities Dealers, and the Stock Exchange, as well as the activities of individual brokerage and underwriting firms have done something to improve public attitudes toward the industry, but we have a long way to go.

Basic Job Not Finished

It is still true that our basic job of public education has barely scratched the surface. There are still legions of people who don't know the difference between the Stock Exchange and the stockyards. There are thousands of otherwise intelligent people who can't get out of their heads the old hocus-pocus about the mysterious "they" who put prices up and down. There are even those, already investors, who wouldn't know the difference between a common and a preferred stock if they met them walking down the street.

A year ago the Federal Reserve Board made a survey which shows that only about 8% of the popu-

lation believe that their surplus funds should be invested in the securities market. Ninety-two per cent believe that it is wisest for a man to put his surplus funds in the bank or invest it in government bonds or real estate or insurance or put it under the mattress. These figures are convincing testimony to the job that still must be done.

While we are considering this problem of Wall Street relations in somewhat general terms, it would perhaps be useful if we recognize that our job of public relations has two rather distinct aspects. The first aspect, and the one people most frequently think of when discussing public relations, is the attitude of the general public toward the financial community as a whole. Do they like us or don't they? Such generalized attitudes can have a direct bearing on the future success or failure of any public institution, and the attitudes of this general nature determine the political atmosphere in which the institution functions.

It determines the public esteem or opprobrium that is attached to people who work in the industry. It influences the number of people who seek employment in the industry, and this general attitude is of vital influence on how many people we do business with.

I want to repeat that it influences the number who seek employment in the industry, and that certainly was brought to our minds very forcefully in the 1930's because very, very few young men had any desire to come into this business. In fact, the second major aspect of this industry's public relations has to do with that specific problem.

Who are our potential customers and how can they be converted into active customers and kept happy? The so-called potential customers are of necessity a smaller group than those who actually determine the political attitude toward the industry. Our potential customers, I believe, total several times the number who actually take part in the investment process today. I want to remind you that only 8% of the people have invested their money in securities. So if we increase that by several times, you can see the tremendous number of potential customers that are available to this industry.

This group of people may like or dislike Wall Street, but that is not really the crucial question. The crucial question is this: Do they know enough about the investment process and enough about investment management to want to invest their own money in American industry?

Services of Underwriting and Brokerage

Stripped of all technicalities, the underwriting and brokerage community performs two services. The first job of the underwriting function is to accumulate money from many reservoirs of savings and channel the funds into industry. This, I submit, is the heart of the capitalistic process.

The second job, of course, is to provide a ready market so the investment can be shifted from one industry to another or converted back into cash.

If we are to fulfill either of these two components, there must be literally millions of people who understand this process well enough to have the faith in the future of America to be willing to make their savings available to industry.

The biggest part of this job cannot be accomplished by mass media such as advertising and radio programs. On the contrary, it must be accomplished almost on an individual basis, such as you men are learning of the principles and techniques of investment.

Of course, most prospective investors will never have the opportunity that you are enjoying. For the most part they will have to depend on individual study and the conversations that they hold with individual representatives of the financial community.

This brings me to the second part of the program which I have been asked to talk to you about—training programs in Wall Street.

At first blush it may appear to you that Wall Street's public relations and training programs are two entirely different animals, but I think that Professor Ricciardi was fully justified in tying them together. The individual in the financial community who comes in contact with the public can do more to make the public dislike or like it than anyone else in the world.

All of the high-powered advertising, all the beautiful literature, all the high-flown speeches cannot give Wall Street a good public reputation if the individual man doesn't do a good job in his relations with the customer.

It is my personal conviction that the real future of our industry rests not with the present crop of senior executives but with the young men who are trained to act as salesmen or customers' men or, as we call them, account executives. It is they who will make or ruin Wall Street's reputation in the years ahead, and, of course, it is from their number that the leaders of the future must come.

Wall Street Training

We must discuss this general problem of Wall Street training both in terms of training for Wall Street and training in Wall Street. What I mean by that is the training that is being offered in our universities around the country to equip people for jobs in the financial industry and the training that is actually going on there within the financial community itself.

Of course, we must not forget the very wonderful combination of these two systems that is being tried out this year for the first time by the University of Vermont. I think you gentlemen here are making some real history. In fact, I know you are, and I hope this program is going to be the first of a permanent class of this type.

University training has been criticized in the past primarily because of the feeling within the financial community that university instruction was so theoretical and so far removal from the actual practicalities of the securities business, that in the long run it made no difference whether the young men who came into it had majored in finance or in botany.

I don't think, however, that this criticism is valid today, and I am happy to be able to say that in the last several years the financial community has been making a real, but still small, effort to help university teachers gain the kind of first hand knowledge of finance that they need if their courses are to really be useful to their students.

The Association of Stock Exchange Firms, the Exchange itself, the Curb, the Investment Bankers, and the Association of Security Dealers have all cooperated by establishing a joint committee on education which provides fellowships to faculty members to come to New York and study the securities market at firsthand.

So far some twenty-six fellowships have been awarded, but think of it—only twenty-six! This is the third year and so we have gone almost nowhere, but it is a start, and I hope this joint committee is going to increase these fellowships by a great deal larger number. We have just begun to feel the effects of them.

Member firms, various associations and the Exchange do everything they can to help advise instructors who come to New York and to enable them to find everything interesting about the securities business.

In our own firm we have made it a practice to let the fellows come in and sit in with us on any and every phase of our business. They sit in on confidential conversations to see how deals are worked out from the beginning.

The contacts that I have had with the professors who have held these fellowships convinces me that they have gained an insight into this business that will be of great benefit to their students. I also believe that all the men who have been active in this program have also gained a tremendous amount from the association they have had with the visiting fellows.

Even without the activity on the part of the joint committee, our schools of business administration have been doing a fine job of equipping young men for this industry. I hope and believe that these joint fellowships and other similar activities will help our universities do an even better job in the future.

Training within Wall Street itself was until the end of the war, that is World War II, carried on rather spasmodically by the individual firms. From a formal standpoint, it was carried on almost entirely by the New York Institute of Finance with which, of course, you are all familiar. It is still the most active center of training in the community.

Several firms, including my own, have instituted training programs within the firm. I suppose our program is the most complete perhaps because we are the largest, and our needs are the greatest.

Another reason is that we are planning for the future determined that our firm is going to be a permanent institution, and if it is to be a permanent institution, we have to continually put young blood into it, and we have got to train them. Then, there is also a very important matter of finance that goes along with that, and we felt that we couldn't have a permanent institution unless we were willing to spend money to train men. That in essence is why we have a different program from anyone else.

Perhaps I can be accused of immodesty in making that statement, but I think it is true, and I don't mind perhaps irking some of my competitors if it will encourage them to follow our program because I am anxious to have the whole industry inaugurate formal training programs within themselves. It is not that I don't care about our own, but I am much more interested in having the whole industry do something along the lines that we have started.

Since the end of the war—we started our first class in December, 1945—we have trained some 300 young men and women. Our postwar program consisted of six months of classes and on-the-job training. Classes were taught both by outside experts whom we hired for this particular job and by specialists within our own firm. Class programs consisted of a very practical review of money and banking, accounting practices, a thorough and detailed study of economics, and the operations of stock and commodity exchanges. There was a great deal of work on security analysis and portfolio management, and, of course, we reviewed all the pertinent rules and regulations governing the conduct of business, and such detailed things as the internal operations of our own firm.

We now have a current and a permanent training program going on which is substantially different inasmuch as we have lengthened the program to two years. Members of this program are called apprentices. We take them at the normal graduating age of 22 years. We put them in some specific job and rotate them through other jobs, finally ending in our research department. After two years we decide what to do with them.

In our other class we sought mostly veterans between the ages of 27 and 33.

Several other firms have conducted programs, but I believe that there are only one or two really serious programs now underway. One of these programs is built around the class facilities of the New York Institute of Finance, the firm offering on-the-job training and instructions in the details of the firm's own operating procedure.

"Quickie Courses" in Salesmanship

Unfortunately, most of the so-called training programs that are being conducted now are little more than quickie courses in salesmanship. The compensation is on a straight commission basis. The selection of candidates is based simply on the willingness of the student to finance himself until he can build up a commission business to live on.

I want to interpolate for just a minute. One mistake that the industry made after the war was in employing a number of young veterans whom they expected to be salesmen and to whom they gave a few weeks or a month or so of training. Some gave very little. Then the men were told to go out and sell securities on a commission basis. You can imagine the casualties that must have occurred on a program of that sort. They simply were not fit to go out to meet the public. They didn't know who to go to unless they had some rich relatives or friends. The result was that a vast number quit after a few months.

We have had an entirely different experience ourselves because we paid our men a salary. We didn't expect them to be of any value for some months or a year or more. Out of the first eight classes — they have been out, I think, about a year and a quarter —of the 250 men that went through those classes, we have lost only 45. In other words, we have 200 men who started with us originally, and we have them because they had thorough training and because we had the courage to stick with them and help them financially over the difficult period that everyone who sells is bound to encounter when he first starts out.

There is one other training center in Wall Street that I shouldn't forget. That is the Graduate School of Business Administration of the New York University which has long worked in very close cooperatioin with the Street and the firms in the Street.

At 5:30 each day, if you are observant, you will notice a stream of young men and women leaving the offices of many financial houses and heading over back of Trinity Church. Dean Collins has done a remarkable job in recruiting students and in designing a program to meet the needs of the financial community. I wish Wall Street itself could take more credit. That school is our post graduate training center for members of this community.

Of course, there are many other schools that are doing a fine job in equipping men for this industry — the School of Business at Harvard, Wharton, and Dartmouth are giving courses, just to mention a few. The Investment Bankers Association has sponsored courses in cooperation with industry and colleges that has been well received.

However, nothing has happened in the training and educational field that is as interesting as this experiment you are making right now. I hope that this program can be continued and expanded for two reasons. The first, because it is a good idea in itself, but I also think it may help inspire more people right here to develop really modern and effective programs of training within their firms. We need more training within this industry, and we need it badly.

In the last analysis public relations is education. We in America think of propaganda as a device for selling a phony product. Education, on the other hand, is the process for learning and searching for truth. As I said before, our big public relations job here in Wall Street is to teach people what we really do and to show them how to manage their own financial affairs intelligently. That, I submit, is just another way of saying that we need more education on the facts of finance.

Adolphe J. Warner Opens As Consultant

Adolphe J. Warner, formerly with Finance Division, Office of Military Government for Germany, announced the formation on Sept. 15 of a financial consulting business under his own name, with offices in New York City. Mr. Warner's firm will specialize in consultative services connected with Western European financial problems.

U. S. Delegate to the United Nations Security Council meeting in Paris in 1949 as Military Government expert on the Berlin currency question, Mr. Warner resigned earlier this year as assistant to the Director of Finance Division, U. S. High Commission for Germany. He had been connected with Military Government for Germany and the High Commission since his separation from the Military Intelligence Branch, U. S. Army, in 1946.

Prior to his war service, Mr. Warner had been associated with several investment firms, including Wertheim & Co. and J. Arthur Warner and Co. He is a member of the American Economic Association, the American Finance Association and the Academy of Political Science.

F. Eberstadt Offers Standard Coil Com.

An offering of 367,500 shares of Standard Coil Products Co., Inc. common stock (par $1) at $11.50 per share was made on Sept. 18 by F. Eberstadt & Co., Inc. The offering marks the first public distribution of the company's shares and comprises a part of the holdings of three top officials who up to this time have owned all of the company's outstanding 1,470,000 shares. Proceeds of the sale will be received by the selling stockholders. The offering was oversubscribed.

Starting in 1935 as a small coils producer, with a net worth of $16,000 in 1940, Standard Coil Products is now the leading manufacturer of tuners for television sets with six plants located in Chicago, Los Angeles and Bangor, Mich. In the first half of 1950, the company supplied this equipment for over 40% of all television sets produced in this country.

Other products of the company include small coils for various electronic devices and permeability tuners for automobile radio receivers. The company has recently started production of intermediate frequency (I.F.) strips used in television sets to provide amplification of intermediate frequencies, and of horizontal output transformers Known as "flybacks," these transformers are an assembled component of the high-voltage power supply to the television picture tube.

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Building-Up Bank Investment Policy

suggestions with regard to maturities?

Suggested Answer: In view of the discussion by Dr. Bogen of various types of securities and the discussion of taxation by Mr. Schapiro, we will not spend additional time on those particular phases of the problem. Instead we will assume that your bank adopts the principle of not leaving the field of government securities for other investment media unless the differential in yield is fully adequate to compensate for greater credit risks, greater market risks, and decreased marketability. We will also assume that those differentials may not be adequate at a particular time and therefore will limit our present discussion to U. S. Government issues.

This, then, leaves us facing the one major problem of a desirable maturity distribution. Liquidity has been cared for by the Secondary Reserve and therefore your bank has a right to seek in its residual Investment Account the objective of reasonable income consistent with safety of principal.

However, the search for reasonable income should be regarded as a long-range, rather than a short-range, quest. If you were to seek maximum income as of any one moment, you might be led into the purchase of nothing but long-term bonds at relatively high prices and low yields. You would have obtained the maximum yield as of the date of purchase. Later, however, you might find yourself locked into these low-yielding long-term bonds with no chance of averaging down in price and up in yield in the event those bonds declined. Therefore, the objective in the Investment Account is to seek reasonable or relatively good income not just for the moment but over a period of years. From this definition it is easy to see that the Investment Account at almost all stages of the market should represent some degree of "hedged" position. By this we mean some intermediate or longer-term bonds for their immediate higher return and some relatively short-term bonds set aside as reserve purchasing power in the event of lower bond prices and higher bond yields.

Question: Assuming the desirability of a "hedged" position, how does one go about attaining it?

Suggested Answer: Perhaps the most commonly accepted approach would be through the use of spaced maturities, by which we mean dividing the Investment Account into fairly even amounts maturing rather regularly over some period such as perhaps 10 or even 15 years.

This rather orthodox approach at least has the merit of representing a constant hedge in the account. On the other hand, like most mechanical devices, it has its limitations. One of these results from the failure of the Treasury Department to provide issues to make such a pattern of buying possible. In other words, you know all too well that certain intermediate years are entirely devoid of taxable issues.

The second reservation to be cited against the spaced maturity theory is that such an approach may result in too little flexibility in adjusting to changed market conditions. From time to time certain maturity sectors for various reasons become more attractive than others, and naturally you would like to take advantage of such out-of-line situations when they occur.

Therefore a general philosophy of maturities might well incorporate two objectives. The first objective would be a hedged position including at all times some short and some longer maturities. The second objective would be a flexibility of approach. This involves a willingness to shift some degree of emphasis from one maturity group to another as market conditions alter the relative attractiveness of the various issues.

Question: Your mention of occasionally shifting our emphasis from one maturity group to another sounds rather intriguing, but how is it possible in the limited time available to me to study and to know whether and when such shifts of emphasis are desirable?

Suggested Answer: The answer to your question is by no means simple, but it is perhaps easier than it first appears. It is found in a continuing examination of, and familiarity with, the yield curve of government issues eligible for commercial bank purchase. You already know that a yield curve is simply a graphic presentation of the yields prevailing as of any particular date. By plotting yields on the vertical line and the number of years to maturity on the horizontal line, you get an immediate answer to the question of whether you are being relatively well or relatively poorly compensated in yield by an extension of your maturities from one maturity group to another.

Probably the best explanation of the use of yield curves is by an actual illustration. The chart which you hold shows yields prevailing on selected bank-eligible issues as of three dates. The yields in question are net after taxes to a bank in the 38% tax bracket in 1947 and an assumed 45% bracket next year. These net yields have been used deliberately in order to show both fully taxable issues and the partially tax-exempt issues on a comparable basis.

I suggest that we look first at the curve prevailing approximately three years ago on Oct. 1, 1947. This date represented the approximate high of market prices in that year just preceding the substantial decline in prices culminating in the Dec. 24 lowering of Federal Reserve pegs. The yield curve of Oct. 1 can be characterized primarily by its relative flatness. When we speak of a relatively flat curve, we refer to one on which the yield increases only gradually and moderately as maturities are extended. For example, on Oct. 1, 1947, a one-year certificate yielded .60% net or approximately .97% gross, while the 2¼s of 59/56 (item No. 6) yielded 1% net or 1.61% gross for an approximate nine-year call date. Thus a move from a one-year certificate at .97% to a nine-year call date at 1.61% involved a gain of only 64 basis points. Compare that with the relationship existing on the wartime financing pattern when the certificate rate was ⅞ of 1% and the intermediate 8-10 year bonds yielded 2%. This represented an increase of 112 basis points or almost twice as much as in October, 1947.

Certainly all of us well remember the drop in prices just before the end of 1947, so I thought it might interest you to look next at the yield curve which prevailed at that time, keeping in mind, incidentally, the drastic change which took place in a period as short as three months. The curve at the end of 1947 is notable not for general flatness, but rather for steepness out to the intermediate section around seven years. This is due primarily to two factors. First, the Federal Reserve reduced the market prices of eligible taxable issues to levels only slightly above par. This resulted in a proportionately greater change in the yield of intermediate issues than in the yield even of the longer issues. For example, between October and the end of 1947 the yield of 2¼s of 59/56 increased 47 gross basis points, while the yield of the much longer "bank 2½s" of 72/67 increased only 31 gross basis points. Secondly, you will remember that the Federal Reserve did not lend its support at all to the partially tax-exempt issues, and this accounts for the very sharp increase in yield in the four longest partially exempts represented on the chart by Items 5, 7, 8 and 9.

Still looking at the curve of Dec. 31, 1947, one is immediately struck by the outstanding attractiveness of an issue such as the 2⅞s of 1955, Item 5. Here was an issue which in a period of three months had increased in net yield 70 basis points from 1.05% to 1.75%. That 70 basis point increase in **net** yield is equivalent to an increase in gross yield of 1.13% in a three-months' period. Furthermore, the bond at the end of 1947 was callable in 7¼ years and for that call date yielded materially more than the so-called "bank 2½s" with almost 20 years to call date. I am perfectly willing to admit that the situation of the 2⅞% issue at that time was unusual and that the issue did not stay at that yield for very long. However, since it does represent an actual illustration from the recent past, it serves to bring out the point which I wish to make. This is, namely, that in your study of yield curves you should look for the point, if any, where the curve starts to bend, since that is usually the point of greatest attractiveness for purchase. The reasoning behind this statement is very simple. If you extend your maturity out to the issue or issues which show a steep rise in yield, you are getting reasonable compensation for the lengthening process; beyond the point where the curve bends, or in a generally flat curve, you are getting relatively poor compensation for your extra maturity risk.

Just to complete our examination of the chart which you hold, I now call your attention to the yield curve of a recent date, Sept. 11, 1950. You will note that this curve is fairly similar in pattern to the curve prevailing on Oct. 1, 1947. However, the present curve is even flatter and at lower net yields than the curve prevailing three years ago.

This is due to three factors:

(1) An assumed 45% tax rate has reduced net yields on all maturities, but has had a proportionately greater effect on long maturities.

(2) The increased flatness of the present curve is accentuated since one-year securities now yield about 1⅜% gross, while in 1947 they yielded only about 1%.

(3) While gross yields in the short-term field have increased, gross yields in intermediate and longer bonds have remained approximately the same. This phenomenon is directly traceable to debt management policy. That is, the Treasury Department has simply starved the intermediate section of the market by not offering any bond beyond five years.

Question: Your chart shows that the flat curve of October, 1947, was followed within three months by a sharp drop in bond prices and a much steeper curve, especially in the intermediate sector. Since the present curve is so similar to that of Oct. 1, 1947, should I gather by implication that we might expect a similar decline in bond prices in the near future?

Suggested Answer: There are certain similarities between the two periods but the particular implication you mentioned was not intentional. We have examined these yield curves of the past, not for forecasting purposes, but to see what has happened and what can happen. Behind our examination there also lies a more fundamental purpose. This is to bring out visually why a flat curve when rates are low should act as a note of caution since it tells us that we are being relatively poorly compensated for any material extension of maturity.

As far as intermediate-term yields are concerned, they could rise some further if the Federal continues to raise the short rate. Fundamentally, however, I am afraid that we may have to postpone our hopes of a higher intermediate yield curve until nearer 1952.

Question: Why did you mention 1952 as a time when we might possibly see a change in the yield curve of intermediate maturities?

Suggested Answer: There are three reasons, of which the first is probably the most important. At the present time there are less than $11½ billion of bank-eligible bonds due beyond five years. In 1952, however, that amount will be more than doubled with the addition of more than $13½ billion of newly eligible issues with the prospect of further large additions in 1953 and 1954. We have argued that the present low yields of existing intermediates result from the scarcity factor in that sector. Therefore, it seems logical to believe that when large quantities of intermediate maturities become eligible and eliminate scarcity, you will see a stiffening of intermediate yields.

A second factor involves the large volume of maturities which will fall due in 1952 and succeeding years, including both marketable bonds and non-marketable issues such as the Series E bonds. The mere weight of the refunding problem may cause the Treasury Department to price its offerings somewhat more generously.

As a third factor, 1952 will bring us to another national election. There is obviously no certainty that we will have a change of administration and equally no certainty that such a change, if it occurred, would result in higher interest rates. However, investors in 1948 seemed to think that a new administration might not be as firmly committed to a low interest rate policy as the present administration, and this might have some psychological effect on 1952 markets.

I have given you my reasons for mentioning 1952 but we should admit in all humility that no one knows how much weight to give to the possibilities inherent in that year. As a practical compromise, however, it might be well to keep the year 1952 in the forefront of our thinking and to plan tentatively to let the passage of time give us a relatively short-term position in 1952. Then if higher intermediate yields do materialize, our respective banks will be in a position to take advantage of them.

(Parenthetically, at this point I might say that the date chosen by your Committee for this meeting has caused me no end of mental anguish because of market gyrations of the past few days. One week ago, as Dr. Nadler knows, my subsequent remarks were slanted toward a somewhat bearish attitude. Today, however, I feel that such bearishness must be distinctly modified in view of the substantial decline in eligible issues.)

Question: You said earlier that a flat yield curve should act as a signal for caution. Would you express your feeling more concretely by commenting on a particular issue such as "bank 2½s"?

Suggested Answer: Yes, but in doing so it is necessary to make some assumption as to the basic level of future interest rates. I suggest that we use an assumption that rates will continue to be "anchored" on the short end in the general range of 1¼% to 1⅜% for one year and on the long end at 2½% for ineligible bonds. On that premise we can examine the points for and against the "bank 2½s."

Against the issue must be cited the following factors. In spite of its price decline this week, it conceivably could be vulnerable to further decline either due to a continuation of rising bank loans or to an increase in required reserves. Its present price spread against Victory 2½s is historically on the high side, though not as great as last week. It admittedly can be vulnerable in 1952 when it meets the competition of newly eligible issues, all of which are shorter. But perhaps the yield curve provides the most telling argument of all against the long eligible issue. That curve tells us that this issue due in 22 and callable in 17 years provides a net income after an assumed 45% tax rate only **$4** per thousand per year more than an issue callable in 1952. Such negligible compensation of about ⅜ of 1% for extending one's call date 15 years is a natural road block to any great enthusiasm for purchase.

In favor of the issue can be cited the fact that it is the highest-yielding eligible government and that it provides a hedge against a continuation of low interest rates. Furthermore, while admitting the possible vulnerability of this issue in 1952, one must give it the benefit of comparison with other alternatives. As one alternative an investment in a bond callable in 1952 will produce a gross yield of about 1½%. In comparison the "bank 2½s" over this same two-year period will provide a somewhat higher income after allowing for amortization of approximately half a point. It must also be remembered that sale two years hence at a loss from amortized cost would create a tax saving probably equal to either 25% or 45% of that loss. Add together the three factors of increased yield, amortization and tax saving. If the tax saving is figured at 45%, these three factors would allow "bank 2½s" to decline about 1⅞ points in the next two years and still produce a net result approximately equal to the alternative of investing at 1½% gross. If the issue declined 1⅞ points to about 102⅝ in 1952, its yield at that time to its call date in 1967 would be approximately 2.30%. Thus certain banks needing current income badly may logically decide to hold, or even to buy, the "bank 2½s" if in their judgment the issue has a good chance of selling at or above 102⅝ in 1952.

Question: Do I gather by implication from your remarks that the present situation suggests concentration in relatively short-term securities?

Suggested Answer: By implication the theoretical answer might be "yes" for the following several reasons:

(1) Historically the recent yield curve has been about as flat and uninviting as it has ever been in a period of low rates.

(2) We hope for a change in the pattern of the curve in 1952.

(3) The Federal Reserve authorities are currently engaged in allowing short-term rates to rise and we cannot know in advance the goal which they may have in mind for the one-year rate, for example. Their goal, in turn, may well be dependent upon the trend

of commodity prices and of bank loans.

(4) Selling pressure would be exerted on the market in the event required reserves are raised and further powers to raise reserves are asked and granted.

The practical answer, however, is by no means as easy since it has to take into account the following important factors on the other side of the ledger:

(1) It is natural to want to hold up earnings through retention or purchase of intermediate and longer bonds, especially after the decline of the past week.

(2) Two years is quite a period to wait for the chance to buy newly eligible intermediates at unknown yields.

(3) During that two-year period \$11½ billion of eligible bonds beyond five years' maturity is a ridiculously small amount to go around in a banking system of \$143 billion deposits, including \$37 billion savings deposits.

(4) The competition for this small amount of bonds could change the complexion of the market quickly if and when business itself and business loans turned downward and the Federal relaxed its present policy of relative tightness. Thus, while Treasury bills look relatively attractive today, it is well to remember that there is no guarantee as to their yield three months hence, and it is a certainty that all of our banks will not be able to hop nimbly from bills to longer issues at the bottom of the market decline.

Looking at the contradictory points cited above brings out all too clearly the dilemma in which we find ourselves, a dilemma due in large measure to the policy of the Treasury Department in starving the intermediate-term eligible market. In the light of this dilemma we might sum up our conclusions as follows:

It would be well to give more attention to the situation and to the needs of the individual bank than to guesses as to future market action. Most commercial banks hold an average maturity shorter than it needs to be. Therefore, most of us theoretically should be on the look out for attractive opportunities to do some lengthening. In practice, however, we should try to attain such lengthening at times when the added risk is compensated for by a reasonable increase in yield. At the moment we can hedge our positions by holding or buying enough intermediate and longer bonds to maintain current earnings. Coupled with that we can only hope that the situation in 1952 or earlier will afford us some relief from the present yield curve and that we can take advantage of that situation through our short and short-intermediate holdings.

Question: Have you any further suggestions as to general investment policy?

Suggested Answer: Yes, a brief but important suggestion that we all endeavor to emphasize flexibility in our thinking about these investment problems. We have tried to think today in terms of the present situation and outlook. But both general conditions and yields will change from time to time. Those changes naturally will affect the shape and the pattern of the yield curve. Each of us will try to maintain constantly a portfolio adapted to the needs of his individual bank and conservative in the sense of being properly hedged in maturity. Let's also cultivate flexibility in our thinking so that our banks may take advantage of new conditions as they arise.

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The State of Trade and Industry

the government in its gradual control over the economy under the powers granted by the Defense Production Act of 1950.

Steel Output Set at 100.4% This Week Exceeding New Theoretical Capacity Rate

The wage increases by auto and other manufacturing companies have put pressure on all basic industries—especially the steel industry—states "The Iron Age," national metalworking weekly in its current summary of the steel trade. Steelworkers will get some kind of an increase. One large steel firm has already had informal discussions with Philip Murray, head of the United Steelworkers, and official negotiations will start about Nov. 1.

At least one big steel company would be willing to grant a slight wage raise without raising its steel prices, but the union will probably turn down a raise of around 5 cents an hour, this trade authority asserts. It will go after a bigger cents-per-hour raise and will try to get pension payments increased, although the pension part of the contract is to run for four more years.

The final showdown on steel wages might reach the White House because a big wage increase would have to be accompanied by a steel price rise. The steel expansion program, raw material cost increases and a big wage increase would force all steel companies to charge higher prices for their products, despite the high rate of steelmaking.

In spite of all the talk and plans being made in Washington, steelmakers are still operating on a hit-and-miss basis to fill government and civilian orders, this trade paper declares. Many steel people feel that the voluntary allocations program will be only a warmup for complete government controls to be installed within a few months.

Defense orders requiring steel are growing in volume and tonnage. As they grow, regular customers making civilian goods are finding their quotas slashed and deliveries extended.

Steel consumers and producers are both worried about nickel supplies. Fantastic prices have been offered for nickel-bearing scrap, but it is practically unobtainable.

Producers are sold out on stainless sheets, plates and bars for the rest of the year. One mill is booking orders for January and February, 1951, for good customers having defense orders. But they expect to cut their allotments in the next 10 days because of the nickel shortage, "The Iron Age" points out. Some producers of large-diameter pipe report they are sold out through 1952. Another big producer is sold out through 1951 on pipe of medium diameter.

Cold-rolled sheets are being sold in the gray market for \$360 a ton, compared with a top of \$260 a ton only three months ago. However, the tonnages are small and deliveries are not reliable.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 100.4% of capacity for the week beginning Sept. 18, 1950, compared to 99.6% a week ago, or a rise of 0.8 point.

This week's operating rate is equivalent to 1,936,400 tons of steel ingots and castings for the entire industry, compared to 1,921,000 tons a week ago. A month ago, based on new capacity, the rate was 90.6% and production amounted to 1,747,400 tons; a year ago, based on the smaller capacity then prevailing, it stood at 86.2% and 1,589,100 tons.

Electric Output Resumes Forward Trend

The amount of electrical energy distributed by the electric light and power industry for the week ended Sept. 16, was estimated at 6,449,101,000 kwh., according to the Edison Electric Institute.

It was 420,574,000 kwh. higher than the figure reported for the previous week, 869,996,000 kwh., or 15.6% above the total output for the week ended Sept. 17, 1949, and 1,022,854,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Adversely Affected by Labor Day Holiday

Loadings of revenue freight for the week ended Sept. 9, 1950, which included the Labor Day holiday, totaled 751,276 cars, according to the Association of American Railroads, a decrease of 101,045 cars, or 11.9% below the preceding week, due to the holiday.

The week's total represented an increase of 127,314 cars, or 20.4% above the corresponding week in 1949, but a decrease of 37,735 cars, or 4.8% under the comparable period of 1948.

Auto Output Approaches Near Peak Performance

According to "Ward's Automotive Reports" the past week, combined motor vehicle production in the United States and Canada of 187,239 units, compared with the previous week's total of 151,606 (revised) units and 159,493 units a year ago.

"Ward's" said that there are no signs of faltering demand, but that threat of disruptions at suppliers' plants hangs over production.

Total output for the current week was made up of 150,497 cars and 27,634 trucks built in the United States and a total of 6,639 cars and 2,469 trucks built in Canada.

For the United States, output in the United States was 144,271 units, and in the like week of last year, 152,228 units.

Business Failures Rise in Post-Holiday Week

Commercial and industrial failures rose to 165 in the week ended Sept. 14 from 145 in the previous holiday-shortened week, according to Dun & Bradstreet, Inc. Despite this rise casualties were lower than last year when 185 concerns succumbed; however, they remained considerably above the 84 which occurred in the comparable week of 1948. Continuing below the prewar level, failures were 38% less than the 269 recorded in the similar week of 1939.

Food Price Index Advances Mildly in Latest Week

Following the downward movement of last week, the wholesale food price index, compiled by Dun & Bradstreet, Inc., turned mildly upward the past week to stand at \$6.68 on Sept. 12. This compared with \$6.65 a week ago when the index showed the first decline in 12 weeks. The latest figure marks a rise of 14.2% above the \$5.85 recorded on the corresponding date last year.

The index represents the sum total of the price per pound of 31 foods in general use, and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Highest in Over Two Years

The Dun & Bradstreet wholesale commodity price index rose to a new high for more than two years during the past week as prices for many basic commodities continued to spiral upward. The index closed at 290.17 on Sept. 12, comparing with 236.58 a week earlier, and with 245.11 on the corresponding date last year.

Activity in leading grain markets declined slightly last week. Although prices continued to fluctuate irregularly over a narrow range, all future deliveries of corn and oats rose to new high ground for the season, largely due to the reluctance of farmers to sell feed grains freely and to the backwardness of the corn crop. There was a moderate export business in corn but demand for cash corn from processors remained slow. Wheat prices trended somewhat easier, reflecting large stocks in mills and elevators.

The Department of Agriculture in its Sept. 1 report, showed a smaller than expected reduction in its estimate of 1950 corn production.

The indicated yield of 3,162,638,000 bushels compares with last year's actual crop of 3,377,790,000 bushels, and a 10-year average of 2,900,932,000 bushels. The total wheat crop was estimated at 1,011,644,000 bushels, comparing with 1,146,463,000 last year and the 10-year average of 1,031,312,000 bushels.

Domestic cotton prices continued their sharp advance with current quotations going above the 41-cent mark for the first time in 30 years.

The Sept. 1 forecast of the Department of Agriculture placed this year's cotton production at 9,882,000 bales.

This represents a decrease of 6,246,000 bales, or 38.7%, from last year's 16,128,000, and compares with a 10-year average of 11,599,000 bales.

Consumption of cotton for the four-week August period, as estimated by the New York Cotton Exchange, totaled 815,000 bales, as against 611,000 in the preceding four-week period.

Trade Volume Shows Moderate Rise Due to Seasonal Factors

The nation's consumers spent moderately more money in the period ended on Wednesday of last week than during the previous week; among the factors deemed responsible were wide promotions, seasonal weather, and the return of a six-day shopping week, states Dun & Bradstreet, Inc., in its current summary of trade. Over-all dollar volume for retail trade was moderately above the level of the comparable period a year ago.

There was a noticeable rise in the buying of many articles of apparel last week, as shoppers thronged to department stores and specialty shops.

The amount of coats, suits and accessories sold was considerably larger than that of a year ago. Responding favorably to large-scale promotions were back-to-school wear for children, lingerie and handbags for women, and lounging apparel and footwear for men.

The total volume of food bought during the week increased very slightly; dollar sales were slightly above those of last year. Much of the rise came about through price changes, as unit volume was virtually steady. In some vicinities fresh produce was in decreased demand, although shoppers' requests for many canned and frozen foods were at a generally high level.

The consumer purchasing of durable goods rose moderately the past week with dollar volume markedly above last year's figure for a number of items.

Washing machines, vacuum cleaners and similar large appliances were in steadily increasing demand, as were automobiles. The interest in furniture and floor-coverings was somewhat desultory, while the call for small house-furnishings was limited in scattered localities.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 4 to 8% above a year ago. Regional estimates varied from last year's level by these percentages:

New England, Midwest, and Northwest +2 to +6; East +3 to +7; South and Pacific Coast +4 to +8; and Southwest +5 to +9.

Wholesale ordering was virtually unchanged last week as buyer resistance to upward price adjustments continued in regard to some items. Total order volume remained moderately above the level for the similar week in 1949. The number of buyers attending various markets increased very slightly.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 9, 1950, rose 8% from the like period of last year. An increase of 5% was recorded for the previous week from that of a year ago. For the four weeks ended Sept. 9, 1950, sales showed a rise of 10% from the corresponding period a year ago and for the year to date registered an advance of 4%.

Retail trade in New York the past week was retarded by wet weather and by the observance of religious holidays.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Sept. 9, 1950, advanced 1% from the like period of last year. In the preceding week a decline of 2% was registered from the similar week of 1949. For the four weeks ended Sept. 9, 1950, an increase of 3% was noted and for the year to date volume showed no change from the like period of last year.

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The Frear Bill

features of the Securities Exchange Act which are involved: the first involves the filing of financial information, the second the adherence to the proxy rules, and the last the prohibition of unscrupulous or unfair practices at the expense of the investing public. Clearly, the third feature of the Securities Exchange Act involves no additional burden to ethically-managed corporations and their management. As for the filing of financial information, virtually every large corporation with over $3 million in assets and substantial public investor interest cannot do business or get along without the accounts and records from which all the information required by the Frear Bill may be readily ascertained. As a C.P.A. I can assure you that in preparing annual financial statements, the biggest share of the work comes in the preparation of the accounts and records themselves—and once they have been duly prepared, the preparation of the financial statements from the records is, comparatively speaking, less burdensome.

The question posed by the Frear Bill is not whether such accounts and records should be maintained, for in most instances they already are. The question is rather one of whether these records and accounts should be made available to the public stockholders—the owners of the enterprise itself.

As for the provision requiring adherence to the proxy regulations, a careful understanding of the proxy machinery leads any fair-minded individual brought up in the traditions of American democracy to the conclusion that it should apply to all corporations who have large public investor interests. Basically the proxy rules require that the stockholders be fully informed as to any matter upon which their proxy is solicited. Adequate opportunity is provided under the rules for stockholders who disagree with management to present their views to the entire body of stockholders. The proxy rules also provide that proxy soliciting material cannot contain false or misleading statements and that proxies sent in by stockholders must be voted as indicated and not destroyed if in opposition to the management's proposal.

There is little room for complaint in the basic provisions of the proxy rules. The only corporations covered by the Frear Bill which might have anything to dread or fear are those which otherwise would engage in practices which no ethical or fair-minded person would condone—with or without a Frear Bill.

Background of Frear Bill

Many have asked why we haven't had legislation like the Frear Bill long ago. The bill seems so meritorious that many people keep looking under desks, in back of drawers, and behind bookcases looking for something wrong with it. A quick review of the history of the Frear Bill shows us why it is needed so badly.

The bill is a logical product of investigations and recommendations which go back almost 50 years. As early as 1904 the United States Commissioner of Corporations in his annual report inveighed against "secrecy and dishonesty in promotion . . . secrecy of corporate administration and misleading or dishonest financial statements" as the principal evils of the corporate form of organization. Presidents Theodore Roosevelt, Taft, and Wilson recommended that the Congress take steps to remedy these evils, and Congressional investigations were conducted in 1911, 1932, 1933 and 1934 to ferret out and expose the more glaring examples of abuses.

The need for some regulation became of greatest urgency after the first World War, when the American people purchased corporate securities in unprecedented amounts. Congressional investigation disclosed that, from 1920 to 1933, approximately $50 billion of new issues were sold to American investors. Half of those issues were absolutely worthless by 1933. These losses in value were accompanied in many instances by abuses in the conduct of corporate affairs by officers, directors and other insiders—abuses which were uncovered in the investigations of the early thirties. The result was an overwhelming popular sentiment that something had to be done to enforce more rigid fiduciary standards upon corporate managers.

In 1933, the President of the United States recommended legislation to protect investors against fraud in securities and blind buying of new security issues. He described this project as "but one step in our broad purpose of protecting investors and depositors." The resulting law, the Securities Act of 1933, requires complete and truthful disclosure of the financial condition of companies whose securities are being publicly offered.

A second step in the program of protecting investors was taken by the Congress the next year with the enactment of the Securities Exchange Act of 1934. That Act was designed to further corporate democracy in companies having securities listed on national securities exchanges, to provide periodic information about those companies, and to free their securities from the manipulation of market operators who caused prices to fluctuate for their personal profit, to the detriment of public confidence in the markets, and to the loss of public investors. This 1934 Act has been very successful, in so far as it goes, in its efforts to combat the evils at which it was aimed.

In the years 1935, 1938 and 1940, further steps were taken to protect investors, with the successive enactment of the Public Utility Holding Company Act of 1935, Chapter X of the Bankruptcy Act, and the Investment Company Act of 1940.

There are still large areas in which the present law, however, does not provide essential safeguards against corporate abuses. Many investors have written their Congressmen and the SEC in anger and frustration about their inability to obtain from their officers and directors adequate information about the business they own, about their inability to exercise their corporate franchise to vote at annual meetings because of the type of proxy furnished, and about suspected "shenanigans" by corporate insiders. Many of the companies which most of you believe to be covered by one or another of the securities laws enacted to protect investors are not in fact covered—and this includes some of the largest corporations in the United States.

Because the Congress has proceeded by steps with these laws to protect the public, it has left gaps, unintentional and accidental, in the broad framework of protection it has provided for the nation's investors. The Congress has given a measure of protection to investors in new securities, investors in securities listed on a national securities exchange, and investors in certain types of enterprise such as public-utility holding companies and investment companies. But the investors in large interstate corporations which are not parts of public-utility holding systems or investment companies, and whose managements do not choose to list their securities on a national securities exchange, are ignored. These investors do not have equal protection even though their companies have securities widely distributed and actively traded. This double standard of investor protection apparently is an accidental rather than a deliberate omission, and it can be attributed only to the piecemeal fashion in which the several statutes were adopted. It was to afford this group of investors some of the essential safeguards now enjoyed by the others, and to remedy an illogical and unwarranted discrimination against them, that the Frear Bill was introduced.

In these times of much-needed expansion in certain industries, there is much concern in both private and governmental fields over the dearth of venture capital. There must be a continuous flow of such public investment in industries if we are to maintain our present economic system and world position. Nevertheless, in spite of some $200 billion of liquid savings available for investment, only a small portion is used to purchase equity securities. It seems clear to me that such capital will not be supplied unless there are reasonable assurances that the persons who furnish the money will be kept informed as to its use. Yet, under our present laws, management may, and in many instances does, ignore the interests of minority security holders. The freedom of management to follow purely selfish impulses is restricted only when the security happens to be subject to the Securities Exchange Act, the Public Utility Holding Company Act, or the Investment Company Act. The Frear Bill is designed to provide the assurances necessary to encourgae private investment in industry.

The 1949 survey of consumer finances sponsored by the Board of Governors of the Federal Reserve System disclosed that the most important deterrent to investment in common stocks is a lack of familiarity on the part of the public with industry's financial condition. Familiarity may be achieved only by open and free disclosures of all important factors affecting financial health. Distrust and reluctance to invest breed in an atmosphere of secrecy. The Frear Bill is designed to remove these barriers between the investor and his corporation.

Even among experienced financial advisers and analysts there appears to be a reluctance to commit large sums to the care of corporate management which does not make the minimum complete disclosures I have mentioned. A recent compilation of the common stocks held by investment companies shows that their 50 favorite stocks, which represented 36% of their entire common stock portfolio, were all stocks of companies subject to the requirements of the Securities Exchange Act. The testimony of Mr. William T. Gardiner, former Governor of Maine and now representative of the National Association of Investment Companies in support of the Frear Bill, appears to confirm this observation.

Of interest in this connection is the report prepared by the Trust Investment Study Committee of the New York Bankers Association. This study was begun in 1946 and completed in 1949. It recommended legislation, which has since been adopted by the New York legislature, for the revision of the list of securities in which trust companies might place the funds committed to their care to include bonds and stocks "listed for trading upon an exchange registered with the Securities and Exchange Commission as a national securities exchange." Said the report:

"The reason for this provision is not that registration with the SEC guarantees quality, but that it does insure the availability and release of adequate information."

SEC Studies

The detailed studies completed by the SEC in 1946 and 1950 indicate the need for corrective legislation. These studies represent an analysis of typical unregistered corporations.

Approximately one out of every six of the companies examined failed to furnish its stockholders with one or more of the three basic statements—balance sheet, profit and loss statement, and statement of surplus—all essential to an understanding of the financial condition of the business. Many companies so handled their reserves it was impossible to determine, even with a balance sheet, what the company was worth. For example, one company with assets of $6½ million had a reserve for contingencies of $2,-200,000 and did not mention any specific contingency for which provisions had been made.

As I indicated earlier, one of the major provisions of the Securities Exchange Act attempts to outlaw trading by insiders based on inside information. Numerous examples of such trading have existed in the case of securities not registered under the Securities Exchange Act, a situation which would be rectified by the Frear Bill. As an example, in one instance, where a security was registered on the New York Stock Exchange and the insider was therefore subject to the Securities Exchange Act, minority stockholders compelled the insider to return almost a half-million dollars' profit made as a result of such short-term trading. In another instance involving an unregistered security, it is alleged that insiders made a $3½ million profit in two months. All the trading, of course, was at the expense of the minority security holders. There is no reason for imposing this basic fiduciary obligation only upon officers, directors and 10% stockholders of registered companies. The prohibition against such shocking conduct should apply to all large publicly held companies.

As we noted earlier, the Frear Bill would extend to these large unregistered companies the controls now in force by virtue of the insider-trading sections of the Securities Exchange Act of 1934. Prior to the enactment of the Securities Exchange Act, profits from the "sure thing" speculation in the stocks of their corporations were, with easy morality, more or less generally accepted by the financial community as part of the return for serving as a corporate officer or director. The Senate Report on the bill which became the Securities Exchange Act referred to a case where the president of a corporation and his brother, who controlled the company with a little over 10% of the shares, disposed of their holdings for upward of $16 million before the company passed a dividend and later repurchased them for about $7 million, thus netting $9 million.

The annual reports of 119 companies with assets of at least $3 million and 300 or more security holders were examined by the Securities and Exchange Commission. In most instances the financial statements were woefully inadequate. About 13% of the companies furnished no income statement at all, and the income statements of many more were so highly condensed that they were of only limited value: in some cases the statements did not even report the earnings during the year. Over half of the balance sheets examined were materially deficient when judged by the accounting standards enforced under the Securities Exchange Act. Not a single company mentioned whether it had had any material transactions with insiders, or whether insiders had traded in the company stock. One company, whose annual report indicated that its 30,000 shares of common stock had a market price ranging from $55 to $63 per share, did not mention the fact that the company had granted its executives an option to purchase 3,500 shares at $12 per share. All of this information, I believe, the investing public has a right to know, and it is one of the aims of the Frear Bill to force such disclosure.

The SEC also studied the proxy-soliciting practices of registered and unregistered companies. Where there are hundreds or thousands of scattered stockholders the possibility of abuse in the proxy field is so evident that it requires little elaboration.

As I indicated earlier, under the rules adopted pursuant to Section 14, management is required to inform all stockholders of the affairs of their corporation when their proxies are solicited and to give them an opportunity to cast their proxy votes intelligently. Non-management groups are provided with an equal opportunity to solicit proxies and to offer proposals to be acted upon at the meetings.

In contrast with this application of the principles of corporate democracy stand the proxy-soliciting practices of many of the large corporations which do not at present fall within the scope of any law regulating their practices. In the SEC study to which I have just referred, the proxy-soliciting materials of 76 companies relating to 152 meetings were obtained. These companies comprised all the domestic companies with assets of over $3 million whose voting securities have unlisted trading privileges on the New York Curb Exchange and were traded during a sample year in a volume exceeding 5,000 shares. A casual examination of the list of these companies furnishes dramatic evidence of the illogical nature of our disclosure laws, which require many smaller companies with less public interest to comply with the provisions of the Securities Exchange Act but permit these companies to be exempt.

It is interesting to note that requests for proxies sent out in connection with 89% of the annual meetings of these companies did not even name the persons whom the management proposed to elect as directors. In connection with 42% of the annual meetings, one of the items was stated to be the approval and ratification of all of the acts of the management since the last meeting, with no specification of the nature of those acts. Only in a totalitarian state would the type of ballot in general use on these proxies have been tolerated, for 95% of the companies did not afford their stockholders an opportunity for a "yes" or "no" vote on specific items. Indeed, in one case some ingenious representative of management proposed to print the proxy on the back of the company's dividend check, so that any stockholder who endorsed the check would automatically execute a proxy unless he indicated to the contrary by marking an "X" in a particular space! Unless legislation such as the Frear Bill is enacted, the small stockholder in such corporations has no alternative but to grope blindly about for the correct exercise of his prerogatives as part owner of the business.

Support of the Frear Bill

It is heartening to note the extent and character of support for the Frear Bill. The financial community, which presumably knows the problems of the investor best, has given its almost unanimous approval. Organizations such as the Investment Bankers Association, the National Association of Securities Dealers, the National

Securities Traders Association, the New York Society of Corporate Analysts, the National Association of Investment Companies, the New York Stock Exchange, and the New York Curb Exchange sent representatives to announce their support for the philosophy of the bill. When organizations of this character together with the conservative and respected members of every community agree that legislation endorsed by a bi-partisan Commission of the Federal Government is essential, it seems obvious that there must be compelling reasons for the enactment of the legislation.

It is logical that the Frear Bill should have such bi-partisan support. The welfare of investors transcends party lines. Not only has the Congress made the SEC itself a bi-partisan agency, but the statutes administered by the SEC have enjoyed a full measure of support from both parties. Although the first of these Acts was not passed until 1933, the investigation of the Senate Banking and Currency Committee which resulted in the 1933 and 1934 Acts began with a Senate resolution adopted under President Hoover in 1932; the tremendous study of the Federal Trade Commission which preceded the Public Utility Holding Company Act of 1935 goes all the way back to another Senate resolution adopted in 1928; and the two statutes which were passed in 1940 were adopted without a dissenting vote in either House. Protection of the investor —like the maintenance of free competition—is not the heritage of any one party or group.

Conclusion

Our country is facing the most crucial period in its glorious history. Full scale war is a possibility on the horizon. We will need to expand our industries to the maximum possible limits, and we will have to depend upon the public investor of today to furnish the capital if we are to maintain our economic system. We must protect investors with full and adequate information about their corporations, with democratic proxy solicitations and with prohibitions against insider profitering whether or not their particular corporations are listed on a national securities exchange. The Frear Bill is the answer to this problem.

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"A Report on United Nations"

mendation of the Security Council, rather than a command. Even if the Security Council had been blocked by use of the veto, the General Assembly, where there is no veto, could have made the same recommendation, and the whole United Nations action in Korea could have followed exactly it has, in fact, occurred.

The potential significance of this United Nations action in Korea, if it succeeds, for future collective security from aggression is tremendous. Canada, which is one of the countries raising a force for action in Korea, has already proclaimed its intention of continuing this force as a permanent United Nations force in the Canadian Army, ready to answer future calls, should they come, for enforcement action by the United Nations. I believe other countries may come to similar decisions.

Of one thing we can be quite sure. The precedent of Korea will not be forgotten. The world will find it more difficult than ever before, if not impossible, to permit any future cases of armed aggression to pass unchallenged. Enforcement action to restore peace should now become a matter of course.

There are many reasons—both immediate and long-range—why the United Nations action must be brought to a successful conclusion in Korea. This requires first of all increased military aid by the other members of the United Nations. It also requires enlightened political planning and action by all the members of the United Nations.

Must Have United and Independent Korea

It will not be enough to win from the North Koreans obedience to the Security Council's cease-fire order of June 25 and their withdrawal to the 38th Parallel. The aim of the United Nations is and must be a united and independent Korea in which all the people of Korea are able freely to elect a government of their own choosing. To accomplish this may take a long time and will certainly require, among other things, an effective United Nations program of relief and reconstruction. Korea will be a devastated land after the fighting is ended. It will need time and help in order to recover. It must have that time and help from the United Nations.

A permanent solution in Korea will require more than the freely given consent of the Korean people. Remember that Korea is a peninsula about the size of Florida extending into the sea from Chinese Manchuria and the Soviet Union. It will be necessary for Korea to have good and peaceful relations with China and the Soviet Union, as well as with Japan and the rest of the Powers of the Pacific area.

How can this be brought about?

Thus we are brought once more face to face with the question of what to do about the bitter conflict between the Western World and the Soviet Union and its allies.

I continue to believe that universal peace requires a universal organization in which nations with all kinds of governments and social systems participate. Within this universal framework there is room for regional groupings and alliances. These may, and often do, serve a very useful purpose. But they are not a substitute for the United Nations and they cannot be. Anything less than a universal organization merely brings the world back to the old system of alliances and counter-alliances that has always led to war in the past. It does not matter whether the competing groups are in the form of federal unions or regional organizations. The effect is the same as if they were alliances.

We must remember the fact that the Soviet Union, Communist China and their allies have about one-third of the world's population. What is called the Western World also has about one-third. The newly rising countries of Asia and Africa, who do not desire to belong to either camp, compose the other third. In such a world it would be the height of wishful thinking to suppose that either side could impose its will upon the others by force without precipitating a third world war that would be destructive of civilization as we know it.

What, then, is the answer?

UN Must Work More Effectively

I see none except to make the United Nations work more effectively in the cause of peace as a world organization with all parties represented in it.

We have first to demonstrate beyond any doubt that armed aggression does not pay. This we have set out to do in Korea. We must carry that task through to its conclusion with unflinching purpose and with all the resources that the member governments can supply. It will not be easy, but it can and will be done.

We have next to find a permanently peaceful solution for the future of Korea. That may take a great deal of time and patient effort. A permanently peaceful solution for Korea is not likely in the present state of critical tension between East and West. But it can be achieved as part of a general settlement between East and West on many issues.

This brings me to my third point, a new effort to negotiate between East and West in the United Nations.

Many people in this audience tonight will recall that I made a trip this spring to the four Great Power capitals—Washington, London, Paris and Moscow. I carried with me a memorandum of ten points for consideration in developing a Twenty-Year Program to Win Peace through the United Nations. I discussed this memorandum with the heads of governments and foreign ministers of the four countries in a preliminary way. I was exploring, and I neither asked for, nor received commitments from anyone. Then I sent the proposals to all the 59 member governments and I have put them on the agenda of the coming session of the United Nations General Assembly, which opens in New York on September 19.

This memorandum is what people who are in government service call a "working paper." Fundamentally, it is an appeal to the member governments to give the United Nations approach to peace a higher priority in their foreign policies—to make a new effort to use all the resources of the United Nations as the really primary means of achieving peace. Until the Korean crisis came along no government really gave the United Nations the top priority. One glance at the budget of any member government will make that apparent.

Signs of Awakening

Now there are some signs of a new attitude and a new awakening to the meaning of the United Nations.

When the United Nations has won its enforcement action in Korea—as we must—I want to see a new and great effort to start the wheels of negotiation turning again between East and West in the United Nations.

The first of the ten points I proposed before the Korean crisis was that we start a series of special meetings of the Security Council, as the Charter provides, with foreign ministers or heads of state in attendance. I believe it is necessary to bring the policy-making officials of the governments together in periodic meetings of this kind. We should not expect dramatic results from such meetings. But if they were properly conducted, with private, informal sessions the rule, I believe they might in time lead to constructive results. Certainly I do not see how we can make any progress at all toward a peaceful settlement of the conflicts that divide the world unless the two sides can be brought around the conference table in genuine and honest negotiation.

During my term as Secretary-General I have sought consistently to bring the two sides together. Now it is getting very late indeed. But it is never too late to negotiate in order to prevent a third world war. I do not believe it is too late today.

This is no time for despair.

This, above all, is the time to work and fight for a United Nations peace—a peace based squarely on the principles of the Charter—a peace of genuine collective security dedicated to the advancement of human rights and fundamental freedoms for all peoples.

If the peoples and their governments will support the United Nations—in Korea and throughout the world—with the same all-out spirit they gave to winning the last war, the world may still win such a peace—and win it for a long time to come.

Joseph D. Means With Webber-Simpson & Co.

(Special to The Financial Chronicle)

CHICAGO, Ill.—Joseph D. Means has become aassociated with Webber-Simpson & Co., 208 South La Salle Street, members of the Midwest Stock Exchange. Mr. Means was formerly with Merrill Lynch, Pierce, Fenner & Beane and Straus & Blosser. Prior thereto he had his own business in Chicago.

Public Utility Securities

By OWEN ELY

Central Maine Power

Central Maine Power Company, with annual revenues of $22 million, derives almost all its revenues from electric service—its transit business was disposed of in 1944, the gas service in 1949, and water sales amount to less than 1% of total gross. Electric revenues are approximately 43% residential and rural, 17% commercial, 31% industrial and 9% miscellaneous.

The Company is primarily a hydro utility, rated capacity being 185,000 KW hydro, 98,000 KW steam and 6,000 KW internal combustion. In the seven months ended July 31, hydro power furnished 75% of the total output, compared with 63% in 1949 and 56% in 1948, drought years. However, in the preceding seven years hydro ranged between 70% and 89%.

The Company has been improving its hydro setup, and has increased the Dead River storage capacity by about one-third. The Kennebec River now ranks among the best in storage capacity, its 47 billion gallon capacity being almost as much as that of TVA's Tennessee River. The Kennebec River (with Dead River) supplies about 50% of the company's rated capacity, the Androscoggin about 18%, and the Saco about 22% (with 10% miscellaneous).

In recent years the Company has added 17,000 KW hydro capacity and 20,000 KW steam, about 10,000 KW is being installed this year, and 60,000 KW added steam capacity has been ordered for 1952. Thus the drought troubles which have plagued the company in parts of each of the last three years should be ameliorated in future. At present water conditions are quite favorable, with storage ahead of the long-term average.

Central Maine Power Company serves about 214,000 customers in southern and central Maine, the area including such industrial centers as Portland, Westbrook, Lewiston, Brunswick, Augusta, Bath and 267 other municipalities. This territory in 1950 had a population of about 560,000 or about two-thirds of the total population of the state, and includes the greater part of state industry. Important industries include pulp and paper products, cotton and wool textiles, shipbuilding, metal trades, lumber and woodworking, and boots and shoes. Sales to important industries in the 12 months ended July 31 were as follows, in millions of KWH:

Pulp and Paper	242
Textiles	133
Lumber and Woodworking	28
Metal Trades	21
Boots and Shoes	13
Shipbuilding	6

While New England is not a fast-growing area as compared with Florida, Texas and the Pacific coast, nevertheless the idea that it is a backward section is fallacious. Despite the fact that Central Maine Power has disposed of services yielding in 1944 over $2 million gross, its growth record has been as follows:

	Operating Revenues	Net Operating Revenues	Balance for Com. Stock
	(000 omitted)		
12 months ended July 31, 1950	$22,008	$8,695	$3,560
Calendar year 1949	21,337	8,105	3,344
1948	20,453	6,478	2,487
1947	17,436	6,171	2,306
1946	16,159	7,031	2,532
1945	15,398	7,122	1,835
1944	17,434	7,392	1,941
1943	16,841	7,810	2,120
1942	16,088	7,198	1,957
1941	14,474	6,256	1,511
1940	12,632	5,861	1,568

The company's capital structure is 51% debt, 21% preferred stock and 28% common stock and surplus, after allowing for small intangibles such as deferred charges. New England Public Service Company now owns 48% of the common stock, having just disposed of 260,000 shares for the purpose of reducing its bank loan. It appears unlikely that NEPSCO will sell any additional Central Maine stock, since its bank loan is being currently reduced to about $2 million, which amount can probably be taken care of through 1951 dividend income. While Central Maine Power has done fairly frequent equity financing, the next common stock issue is not anticipated until some time next year.

The stock is currently selling around 16½ and pays $1.20 (which rate has been maintained since 1946) to yield about 7.3%. Earnings for the 12 months ended Aug. 31, 1950, were $1.65 a share and for the calendar year 1950 are estimated at $1.70 a share, after adjusting for a 42% tax rate. With 12 months of normal water conditions, earnings would probably rise to an estimated $1.85, which however would be reduced by EPT in 1951. The management believes that the $1.20 dividend can be maintained.

Continued from page 3

Steel Industry Will Do the Job

thing, that manufacturers are not using steel as efficiently and as sparingly now as they did in 1943; but there **could**, of course, be another explanation. It is just barely possible, for instance, that some of the customers who are buying steel from us today are following the example of the woman who went into a liquor store, ordered 10 cases of scotch, and explained to the clerk that she wanted to build up her inventories before a lot of **greedy** people started hoarding.

Yes, gentlemen, that might explain a lot, for certainly the telescoping of consumer demand, and the replenishment of inventories are two primary reasons for our present difficulties; but there is a third — and equally important — reason which cannot be ignored in any honest and complete discussion of the current shortage.

Strikes Have Cost 29 Million Tons of Steel

And that is the simple, undeniable fact that strikes have cost the American people 29 million tons of steel production since VJ-Day.

Now understand me, gentlemen, I state that merely as a fact, and not as an accusation. I point the finger of blame at no one; for with all my heart and soul I believe one thing: I believe that any man who—in this critical hour—impugns the motives, the patriotism and the high purpose of any group of loyal Americans, is playing the Kremlin's dirty game and that is NOT for me!

Some men will say those strikes occurred because management was stubborn and unyielding. Others may say that labor was willful and headstrong. Conceivably both could be right. As an interested party, I'm not qualified to judge.

But of this thing I am sure: That if the patriotic men of steel—the men who make it and the men who manage it—are fully determined to put America's security above all else, there is no problem they will ever face that cannot, and will not, be peaceably settled—with patience—with forbearance—and with reason.

So tonight, I'd like to brush aside a lot of the emotion, prejudice, and plain political malarkey that seem to surround this shortage. Let's get down to the simple, dispassionate facts about our steel supply, and see if we can't bring this picture into some kind of realistic perspective by asking ourselves three questions: What has the steel industry actually done, over the years, to fulfill its responsibilities to the American people? How serious is the present shortage in terms of military and civilian needs? And what is the steel industry doing to overcome that shortage?

Now the answer to the first question—about what we have done to live up to our national responsibilities—is all to be found in the official record, and any man in the steel industry can be proud, I think, to stand on that record.

Americans, of course, don't like to take second place in any league, so they expect their steel industry to be bigger and more productive than the steel industry of any other nation on earth. Well it is; but what many Americans do NOT know, I suspect, is that their own steel industry is bigger than those of **all** the other nations on earth, put together!

Can Match Any Other Output

Yes, the fact is that the American steel industry today can match the output of every foreign steel plant in the world, ton for ton, and still have 14 million tons left over. It turns out pretty nearly twice as much steel as all the other countries outside of the Iron Curtain; and—if you understanding gentlemen will pardon a brief commercial—I would like to point out that United States Steel alone is pouring more steel today than all of the Communist nations together are believed to be producing.

So I think it is clear that the American Steel Industry has more than fulfilled what is probably its first responsibility to the nation—the obligation to outproduce any possible combination of aggressors. But what of our domestic needs? How have those been met?

Well, gentlemen, all during this Twentieth Century, the steel industry has maintained—year in and year out—an average productive capacity nearly 50% greater than the demands our nation has made upon it. That means that, over these years on the average, nearly one-third of all the steel-making facilities in America have stood idle.

Yet, in spite of this, it has continued to expand steadily, in every decade—even in the depths of the depression when only half our steel capacity was being used and when we couldn't have sold another pound of the stuff if we'd taken cigar store coupons in trade!

In 50 years, the population of the United States has only doubled; but America's steel production has increased nearly sevenfold. And the most dramatic part of that increase has come in the past 11 years.

Capacity Since 1939 Increased 47%

Since 1939, when Hitler's armies invaded Poland and World War II began, America has expanded its steel production by more than 47 million tons. That is an increase of 90% in these 11 years—an increase six times as big as the growth of our population.

Never once, of course—not even in the darkest days of World War II—did any military project ever suffer for lack of steel. On the contrary—in the **peak** year of arms production—after every direct military need had been fully met—more than 50% of our total steel production was still left for essential civilian requirements and for Lend-Lease export to foreign nations—including Russia.

No other nation in the world could have matched that record. It is a record that stands as a glorious tribute to the men who make steel and the men who built Steel in America.

Next we come to the question of our present day steel supply and the probable demands that will be made upon it.

Now the first fact we have to recognize here, it seems to me, is that practically all the steel we can make today is being shipped to civilian customers as fast as we can make it. Military demands thus far have been negligible, but they will increase rapidly in the coming months and will naturally have first claim on our entire steel supply.

So it is obvious that whatever the military and the other steel demands may be, new steel-making facilities are going to have to be built to take care of them. It is equally obvious that—until those new facilities are built—the Government's needs will have to be met out of existing civilian supplies.

How much civilian steel will be left depends, therefore, on how much military steel our Government must take. And on that question, I regret to say, there simply are no firm, established facts to guide us.

Uncertainly of Future Military Needs

Personally, I have consulted with just about everybody except the fortune-tellers, and I don't think anybody knows exactly how much steel our defense program will require. I don't see how anyone can be expected to know, moreover, until we find out what deviltry that gang in Moscow is planning next. But when it comes to reading the Russian mind, I'm strictly a second-guesser myself, so if the experts are a little hazy about their estimates, what right have I to complain?

The only official information we have on the subject is now about six weeks old and comes from the House Appropriations Subcommittee where Secretary Johnson and other military experts testified early last month. At that time, they thought that our direct defense needs up to next July first would run to only four million tons.

But since then many things have happened and my own inquiries, recently, lead me to believe that this estimate is low. Certainly, in the light of our experience at the outset of World War II, I think we must assume—for safety's sake—that military demands might go as high as three times that figure by next July 1; so let's be pessimistic about it and put the Government down for 12 million tons.

That would mean that we shall have to cut back our civilian consumption by about one-eighth as an overall proposition, but unfortunately it isn't as simple as that. And it isn't an overall proposition.

I don't have to tell you gentlemen, of course, that our greatest difficulty today lies in the field of light, flat-rolled products, and it is right here in this field—where we were already struggling to keep our heads above water—that much of the military demand is going to fall.

The Armed Forces will need landing craft, tanks, more trucks and jeeps, blitz cans, field ranges, aircraft landing mats, lockers, tin cans for food, and a lot of other things that will take large quantities of flat-rolled steel. Beyond that we are going to have to build more oil pipe lines, more freight cars and more grain-storage bins. And when they get through, our supply of flat-rolled products is going to look mighty flat indeed.

First Impact of Military Needs

So there is the crux of our problem. While similar pressures are beginning to develop in other product lines, it is here, especially, that the first impact of our national defense program is going to cut a large segment from our civilian supply of sheets, plates, and tin plate. Just how large a segment that will be, nobody knows. I have been very much impressed, however, by a statement which President Truman recently sent to the Congress. In that statement he said this:

"We must continue to recognize that our strength is not to be measured in military terms alone. Our power to join in a common defense of peace rests fundamentally on the productive capacity and energies of our people. In all that we do, therefore, we must make sure that the economic strength—which is at the base of our security—is not impaired but continues to grow."

That statement by the President, gentlemen, makes a whole lot of sense. If our economy is to remain strong, and if it is to continue to grow, it must not be starved at home to provide the steel we shall need abroad. So, clearly, it is up to the industry to build — as rapidly as it can — the capacity required to meet our defense needs with the least possible disturbance to our necessary civilian demands.

What Can Steel Industry Do?

All of which brings us to our third and final question: What is the steel industry doing about it, and what can it do?

Here again, the answer is simple and factual: We are suddenly confronted by civilian demands that normally would have been spaced out over several years. At the same time we are facing a flood of defense and military orders that might never have been forthcoming at all under other, and happier, circumstances. And just as all these demands have been compressed suddenly into one tremendous package, so the steel industry is now compressing into the space of a few months a construction program that normally would have been spread out over many years to come.

Fortunately the steel industry has never stopped planning for the future—for its future and for America's future. And so these plans — plans that only a short time ago were hardly more than the blueprint of a distant dream—are already beginning to spring to life in the form of steel buildings, flaming furnaces and roaring mills—ready to provide our Armed Forces with whatever may be necessary for our national survival.

Within a matter of days after the Korean invasion began, the American steel industry announced the commencement of a truly enormous program of expansion. Most of you, of course, are familiar with the details of that program. You know that in the next 27 months the industry as a whole will have added a total of five million tons to our present ingot capacity; and one-third of that entire increase will be completed within the next 15 months by United States Steel alone.

Now the sudden telescoping of all this construction into this almost incredibly short space of time naturally imposes a tremendous burden, not only upon the energies, but upon the finances of the entire industry; and yet — despite that fact—more plans are being rushed in order that more plants can be built as our defense requires them.

Among those plants, of course, will be the new East Coast Mill which we expect to build on the banks of the Delaware River near Morrisville, Pennsylvania. And because that mill will be right here in your own back yard, so to speak, you naturally want to know all about it.

Well, I wish I could tell you everything you want to know, but I can't at this moment. How large that plant will ultimately be, and what kinds and quantities of finished products will be made there, will depend to a large extent upon the military needs of our government. So until we know what is necessary to meet the requirements of our Armed Forces, I can only tell you what you have already read: that almost immediately after the outbreak of war in Korea—and as soon as it became apparent that our national defense would require the building of new steel capacity—we decided to erect an integrated steel mill here on the Eastern Seaboard, with a minimum capacity large enough to permit high efficiency of operation. Beyond that, however, I think it would be safe to assume that ultimately, this plant will also be large enough to produce whatever steel our government may want us to produce in this area.

Venezuela Ore

Now you understand, of course, that this Eastern plant of ours will be only a part of the tremendous job we face in building this new, wholly-integrated capacity. The other part lies down at Cerro Bolivar, near the Equator, in the deep interior of Venezuela.

Down there, we face the tremendous task of moving a whole mountain of iron—some of the richest iron ore this world has ever seen—through hundreds of miles of wilderness. To do this we must hack out roads and cart in enormous earthmoving equipment. We must install heavy machinery, huge conveyors, processing plants and laboratories. We must have a railroad, sorting yards, ore docks, and two new towns for our workers—complete with water supply, power plants, streets sewers, and all the other costly improvements of modern municipalities. Beyond that, we will need a whole fleet of sea-going ore carriers to move our iron mountain across thousands of miles of water to our plants here in the United States.

That's a mighty big job, and right here, I would like to stop for a moment to express my appreciation for the friendly and understanding help which the Venezuelan Government has accorded us in arranging for the development of this Venezuelan ore. Knowing that the survival of democracy on this earth may depend tomorrow on the steel that we produce today, these Venezuelan officials are playing a full, conscientious and patriotic part in the defense of the civilized world.

Now all of you know the story of Cerro Bolivar, so I won't repeat it here; nor will I dwell upon the many weary years and the millions of dollars we spent in searching four continents to find that mountain of iron. But I do want to point out one thing:

Many years ago—and long before there was any great public concern about it—the American steel industry began to worry about a possible shortage of iron ore.

It was clear that the high-grade, open-pit ores of the famed Mesabi range were running low and might not last much more than 20 years longer if they were not conserved. It was probable, of course, that the rich, hard-to-get metal in the underground mines would add enough to these resources to carry us well beyond the anticipated lifetime of most of the men who were then doing the worrying, but not beyond the expected needs of a nation that is only now in the first vigor of its youth.

So the search for foreign ores began in earnest, and while the geologists of U. S. Steel were combing the globe for the strike they finally made at Cerro Bolivar, our competitors—with equal perserverance and courage—were finding other deposits in Canada, Labrador, Liberia, and South America.

Hundreds of millions of tons of the world's richest ores were thus added to America's reserves, but still the industry was not content, because these sources might be cut off in time of war, and because the biggest iron treasure of them all lay right here at home in the taconite deposits of our own Lake Superior region.

Now taconite is just about the hardest, toughest rock you ever saw. It is estimated that there are some 72 billion tons of it in this country, and about one-third of that is iron. The trouble is that this iron is scattered through the rock in tiny particles, some of them so fine that they could be hidden under a single grain of face powder. And the problem has been to separate those particles of iron from the rock and to bundle them together by the millions into solid pellets that can be charged into a blast furnace. It is a problem upon which the laboratories of the entire industry have spent many, many years and many more millions of dollars; but today we think we've got it licked.

We are building our pilot plants now, and after that will come a

host of great ore factories to separate and concentrate, agglomerate and nodulize this iron.

I point this out, gentlemen, because it seems to me that if we have really found the answer to taconite, as we think we have, and if we are permitted to develop our foreign deposits, as we think we can, then this indeed is one of the greatest contributions any private industry has ever made to any nation. Whatever else the history of this great country of ours may hold, I think it must then be recorded that the American steel industry—in these years of patient exploration and research—has given the people of America all the iron they will ever need for a long, long time to come.

So, I am happy to report that we do not seem to be facing any insurmountable problems so far as raw materials and the other essential ingredients of steel are concerned.

We have plenty of coal and limestone in the ground, although the opening of new mines and quarries may be necessary. Scrap is always a problem, of course, but we think we can obtain enough to meet foreseeable needs, and to help things out we have bought 200,000 tons abroad. Iron ore stocks at our plants are lower now than they should be, and will be still lower by next Spring, due chiefly to the late opening of the shipping lanes on the Great Lakes this year. But to meet this transportation problem, we are building three new ore boats, which will be the largest and fastest in our Great Lakes fleet, and one self-unloading vessel to carry limestone. Beyond that we have initiated direct shipment of ore by rail from the mines to our plants.

Of the alloys, nickel alone is really scarce, and our inability to get adequate quantities from Canada may require a change in steel specifications later on. Government stockpiles of zinc, tin, chrome, copper and manganese will insure the steel industry against any critical shortage of these metals in the immediate future, but the long-range outlook on manganese is still uncomfortably thin. That is why the steel industry today is scouring every likely corner of the earth for new and reliable sources of supply, and is negotiating, with patient determination, the development of the foreign deposits it has recently discovered.

And there, gentlemen, you have the picture as I see it. I have made my report to the boss, and I am proud of the story it contains—the story of a great industry that has well and faithfully served a great nation!

With Minneapolis Assoc.

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn.—Jeptha D. Knox, Kenneth S. Nelson, and Jordon C. Rasmussen have been added to the staff of Minneapolis Associates, Inc., Rand Tower.

A. H. Ellis Opens

(Special to The Financial Chronicle)

GRAND ISLAND, Neb.—Alonzo H. Ellis is engaging in the securities business from offices at 301½ West Third Street.

With Paine, Webber

(Special to The Financial Chronicle)

OMAHA, Neb.—Joseph J. Pavlas is now affiliated with Paine, Webber, Jackson & Curtis, Medical Arts Building.

Joins Wachob-Bender

(Special to The Financial Chronicle)

OMAHA, Neb.—Frank V. Lawson, Jr. has joined the staff of Wachob-Bender Corporation, 212 South Seventeenth Street.

Continued from page 2

The Security I Like Best

ceive, on consummation, the new securities, or they might sell the preferred shares on a when-issued basis, thus limiting their interest to the new class A common. In such a manner the new class A stock would be created at about 23 compared with its present when-issued price of 26. After the issuance of the new securities, a dividend of as much as $5 might be declared on the common stock.

Estimated earnings on the new common vary widely. Last year, because of a protracted strike, only about $3.50 per share was earned on a pro-forma basis; in 1948, about $16 a share was reported. For 1950 estimates run from about $12 to $14 per share.

More conservatively inclined investors may favor the senior securities of the road. However, the patient holder of the MOP convertibles will reap a larger share of the benefits accruing from the pending reorganization and the tremendous increase that has taken place in the road's earning power.

These bonds, now actively traded on the New York Stock Exchange around 50, could easily have an ultimate workout value above 70.

LOUIS LOBER

Partner, Lober Bros., Member of New York Stock Exchange

(Central Public Utility Corp. Income 5½s of 1952)

One able and willing to forego immediate income for substantial capital appreciation could well examine into "special situations" of a liquidating or distributive nature. Among the rapidly waning number of such situations, Central Public Utility Corp. Income 5½/52 (CPU) seem to me to merit particular attention.

Louis Lober

At present, the SEC is considering a plan filed by C. P. U. which contemplates the cancellation of the 5½s and the issuance in place thereof of the stock of Central Indiana Gas Co. and the stock of another corporation which will be vested with the balance of the assets. The C. P. U. as of June 30, 1950, was indebted to a bank on a collateral loan in the sum of $1,300,000. At this writing, the indebtedness has been reduced to $800,000. It is expected that by the time the plan becomes effective this indebtedness will further be susbtantially reduced. The consensus of opinion is that the plan should become effective within the next six months.

C. P. U. bonds are outstanding in the sum of $42,101,202 and represent sole ownership of all assets of the Consolidated Electric & Gas Co. A list of these assets, together with their individual earnings for the 12 months ending June 30, 1950, follows:

Central Indiana Gas Co. (CIG) Earned $1,593,000: Supplies gas at retail in 23 municipalities and their environs in the east central section of Indiana. Service area embraces 1,600 square miles with an estimated population of 166,500 and includes Muncie, Anderson, Marion, Elwood, Hartford City, Alexandria, Dunkirk, Gas City and Fairmont. The company purchases its gas requirements from Panhandle Eastern Pipe Line Co.

Carolina Coach Co. (CCC) Earned $285,000: Operates directly and through subsidiaries an intercity transportation service extending from Charlotte, N. C. to Washington, N. C., a distance of about 285 miles, from Raleigh, N. C. to Norfolk, Va., a distance of about 120 miles. Also operates three other routes totaling about 253 miles.

Southern Cities Ice Co. (SCI) Earned $32,000: Furnishes ice in Kingstree, S. C. and 19 other communities with a population of about 27,000.

Compagne d'E Electrique du Haiti (CEH) Earned $148,000: Supplies electricity (about 10 million kwh yearly) in Port au Prince and Cap Haitien, Republic of Haiti through 160 miles of transmission and distribution lines to approximately 10,100 customers. This area's population is about 207,000.

Compania Electrica Santo Domingo (SDE) Earned $973,000: Through about 600 miles of transmission and distribution lines serves a population of about 340,000, selling about 38 million kwh yearly to about 26,200 customers. Through 46 miles of water mains serves two cities with about 283,214 million gallons annually, selling to 3,400 customers.

Porto Rico Gas & Coke (PRG) Earned $114,000: Through about 143 miles of 3" equivalent gas mains sells about 410,000 mcf per year in the cities of San Juan and Rio Piedras to about 12,300 customers. The population served is about 356,000.

The total of the above earnings is $3,146,000.

C. P. U. since November 1947, by virtue of its ownership of all the securities of the Consolidated Electric & Gas Co., has been filing consolidated tax returns and thus has benefited by tax savings of roughly $660,000 per year. When the plan presently under consideration by the SEC becomes effective, this saving will no longer be available, though C. P. U. states that upon consummation of the plan it will still have a carry-back which would permit substantial tax savings for a period of more than a year.

On the basis of the absence of the aforesaid tax saving and charging $500,000 of this saving against the earnings of Central Indiana Gas and $160,000 of the saving against those of Carolina Coach Co., I arrive at earnings of $1,093,000 for Central Indiana and $125,000 for Carolina Coach. If the earnings of all the properties mentioned above are capitalized as follows the possible values appear to favor the purchase of C. P. U. bonds which are presently selling at about $270 per bond.

	Earnings	Tms. Erngs.	Valuation
CIG	$1,093,000	11	$12,023,000
CCC	125,000	4	500,000
SCI	32,000	3	96,000
CEH	149,000	6	894,000
SDE	973,000	7	6,811,000
PRG	114,000	6	684,000
Total Valuation			$21,008,000

On the above figures the possible value of the Central Indiana equivalent per bond is about $285, and that of the company owning the other properties is about $215 per bond. Combining these values we have a potential value of about $500 per C. P. U. bond which is presently selling for about $270.

Additional values not included in the above figures may develop from the following other assets of C. P. U.

(1) **Manila Gas Corp:** Properties were severely damaged by enemy action. The U. S. War Damage Commission has awarded the company (but not paid to it as yet) about 1,200,000 Philippine pesos ($600,000) with a proviso that it be spent to rehabilitate the properties. Under agreement, the Philippine government will subscribe to 60% of the stock of Manila, C. P. U. retaining the balance of 40% and in addition the government is obliged to lend enough money to Manila to complete its rehabilitation. The government then would have the option of buying C. P. U.'s 40% shareholding at not less than $750,000. With the share of the award that is applicable to the C. P. U. interest, the total to be received by C. P. U. should the option be exercised is calculated at roughly $990,000.

(2) **Union Electrica de Canaries S. A.:** This company operates in the Canary Islands. The C. P. U. owns about 92% of its stock. For the year ending Dec. 31, 1949, the net income applicable to the C. P. U. interest was roughly 1,775,000 Spanish pesetas. These earnings are blocked and cannot be withdrawn presently due to exchange restrictions.

(3) **Gas y Electricidad S. A.:** This company which is wholly owned by C. P. U. operates in Spain. For the year ending Dec. 31, 1949 the net income amounted to 1,025,000 Spanish pesetas. These earnings are blocked and cannot be withdrawn presently due to exchange restrictions.

With respect to the latter two companies, the President of C. P. U. has made several trips to Spain with the object of disposing of the properties. Thus far, he has been unable to do this due to the prospective buyers' inability to furnish dollar exchange. The combined book values of both companies applicable to the C. P. U. interests amount to about 42,000,000 Spanish pesetas. Should restrictions be modified to make dollar exchange available, a substantial sum could probably be realized from the sale of these properties.

Summary

(1) There appears to be small risk in the purchase of these bonds at around the present level. Substantial holdings of these bonds are said to be in strong hands.

(2) With respect to the consummation of the plan, I would appraise the time element to be six months or less.

CHARLES S. MOORE

Partner, D. T. Moore & Co., New York City

(Canadian Pacific Railway Ordinary Shares)

It is my opinion that the Dominion of Canada is on the threshold of great industrial expansion such as the United States experienced at the end of World War I.

Charles S. Moore

The Canadian Budget has been in balance since 1947 and each year has shown a surplus. As of July 31, 1950, Canada held $1,320 million in gold and American dollars which compared with the low of $461 million in 1947.

This financial progress, together with Canada's natural resources, which will be in increased demand for U. S. rearmament, has created a situation where the Canadian dollar instead of selling at 90.5% of the American dollar should sell at parity or above. My feeling that this will occur in the near future was strengthened by the recent lifting of import restrictions on many items. If Canada revalues its dollar to par, it will save 9½% on the cost of its imports from the United States.

In order to hold a stake in the future prosperity of Canada, I favor the Ordinary Shares of Canadian Pacific Railway Co. for those willing to ignore market fluctuations.

In the first place, the railroad has made steady progress during the last year through dieselization and increased freight rates and any increase in labor costs should be balanced by higher freight rates, which are now the lowest in North America in spite of a 20% increase granted during the past year.

As as example of the road's progress, July net was $3,842,107 vs. $1,701,293 in 1949 and the first seven months showed an improvement of $8,300,000 over a year ago. Fixed charges have been reduced $10 million since 1940 to $14.5 million at the end of 1949.

However, in spite of the progress being made by the railroad, the real appeal to those seeking protection against the rapidly shrinking value of our dollar lies in the tremendous outside interests owned or controlled by the company.

The most important is ownership of 1,682,500 shares or 51.36% of the stock of Consolidated Mining & Smelting Co. of Canada. This holding alone at present prices amounts to more than $14 American a share on Canadian Pacific Ordinary Stock. In addition, at the end of 1949 the company owned 1.6 million acres of land and held mineral rights to more than 11 million acres, 35,000 of which were under lease to oil companies for exploration. The income from oil royalties is small at present but increasing steadily and holds considerable promise.

The company owns 11 ocean and 20 coastal steamships. The income from this operation for 1949 was $2,777,000 and the replacement value of these ships is considerably higher than balance sheet value. The 21 inland steamers are included in the railroad operation. Also owned and operated by the company are 14 of the finest hotels in the Dominion, which are carried far below their replacement costs.

Earnings last year from all operations were $1.93 Canadian and should be somewhere between $2.25 and $2.50 this year. The $1.25 dividend is subject to a 15% Canadian withholding tax which is deductible from the United States Federal income tax.

In conclusion, Canadian Pacific Railway Ordinary Shares seem to offer a perfect hedge against both inflation and a war economy. The property other than the railroad provides the former and the railroad the latter.

The stock is listed on the New York, Midwest, Pittsburgh, Toronto and Montreal Stock Exchanges.

With Barrett Herrick

(Special to The Financial Chronicle)

BOSTON, MASS.—Ernest Parsons has become affiliated with Barrett Herrick & Co., Inc., of New York City.

With Schirmer, Atherton

(Special to The Financial Chronicle)

BOSTON, Mass.—Leroy H. Myrick has become associated with Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges. He was formerly with Raymond & Co. and R. H. Johnson & Co.

S. R. Livingstone Adds

(Special to The Financial Chronicle)

DETROIT, Mich. — Angus T. Waddell is with S. R. Livingstone & Co., Penobscot Building, members of the Detroit Stock Exchange.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

As the market progresses the question uppermost in most people's minds is what to buy. For the past few weeks I have purposely avoided mentioning specific issues except in passing fashion, for the elementary reason that there is no separation between the goats and the sheep in the start of an inflationary movement.

* * *

It is only when the move has gone to such an extent that everybody believes there is only one direction — up — that it is practical to start picking and choosing. This doesn't mean that I recommend buying them on top of a move. There is, however, a pattern that practically all stock markets follow. A market that starts up is usually friendless. Half-way up it acquires some friends. As the top of a move approaches its friends are legion. It is then that the milling around starts to happen.

* * *

The scoffers of yesterday become the cheer leaders of today and the scramble for stocks is apparent to anyone. It is at such a time that stocks go from strong hands to weak ones and after a time enough selling is accomplished to start the market down again. It is on such a down move that certain signs appear that indicate the strong stocks of the future and those to be avoided.

* * *

I am now looking for just such a reaction on which to recommend specific issues.

* * *

In the past few weeks recommendations here have been general. I have felt that stocks of specific industries, e. g., oils, sugars, steels, etc., would advance and suggested the purchase of securities in that field. What has happened since is history.

* * *

Incidentally the rise of the rails is based on two factors. The first is the genuine fact that the industry has been moving peak loads, will probably continue to do so for the foreseeable future, and is making money. Much of the buying in that group, however, has taken the excess profits tax into consideration. Because of their financial structure, the rails are less likely to be hit by such a tax than practically any other industry in the country.

* * *

Of course the war and the news that comes from it will continue to play an important part in intra-day movements. But such news, though important, merely hurries and intensifies conditions that have been present in the market all along. A shrewd trader will recognize this state.

* * *

S. D., Galveston, Texas: The only stocks I comment on are those this column has a position in, and/or recommended. If I tried to give advice on others I would soon be deluged with requests. I suggest either conferring with your broker, or subscribing to an investment service.

[*The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.*]

Continued from page 11

Treasury-Federal Reserve Split

condition by tying the Federal's hands through a longer than usual period for a refunding operation.

To most investors in Treasury securities the acceptance by the United States of the Korean challenge meant that there would be no further argument about the levels of short-term rates. The Federal continued, however, to pound away at the 2½% restricted bonds in the face of a large-scale supply of mortgages and, as August approached, the Federal Reserve made certain that the 1½% notes did not move up in price. In fact the Federal's sales were made at premiums as low as 3/32 and 4/32 above par and the 2½% bonds were held down in price to approximately 101. In view of this the market began to hope for a higher rate refunding issue such as an eight-year 1¾% bond although it expected hardly more than a 4¾- or five-year 1½% note. Thus for 10 months the Federal pursued an aggressive campaign to persuade and to coerce the Treasury into the establishment of a higher short-term pattern. The Secretary of the Treasury gave some ground but it appears that he resented the coercion involved in the Federal Reserve's open-market activity and he replied in kind.

What Next?

In spite of this background what other circumstances possibly could have justified an open break between these two important arms of the government? What is the Treasury's position now? What does the Federal Reserve have in mind as its objectives? How may or will the Treasury return to its dominant position *vis-a-vis* the Federal?

It seems likely that both parties may have felt that they had made their respective positions, policies and convictions clear to the other. In the light of developing conditions, it is now reasonably clear that the Federal Reserve was convinced that if they were to be able to exercise a restraining credit policy a higher short-term interest rate would be necessary. The Secretary has made it clear that he believed the existing international crisis and our involvement in Korea called for a policy of caution—of sitting tight in order to insure a stable market for Treasury securities as the first line of our financial defense. From the testimony before the Douglas Committee one can be sure that before embarking on an increase in the rediscount rate of the Federal Reserve Banks the Board acquainted the President with its intentions. In view of the influence that the Council of Economic Advisers has on the President in such matters, it seems reasonable to assume that the Council members also were acquainted. Nevertheless, the Secretary of the Treasury is the President's appointee. The Council, as recently as this year, strongly backed the Treasury against the Board. Could it be that against the wishes of the President, the Council of Economic Advisers, and the Secretary of the Treasury the Board of Governors nevertheless went ahead? In my view the answer to this question is a very clear no.

Now at this point it is necessary to depend more largely on conjecture than on fact but we can be sure that the Secretary of the Treasury was opposed to the Federal Reserve's moves and so acquainted the President. Could it be that the members of the Council did not approve the Board's action but also did not object? If true, this would be surprising but it could be rationalized as follows: Prices have been running away. Anticipatory and scare buying was rampant. The fear of a further and more damaging inflation was quite high. Congress seemed likely to present the President with some controls that he had asked not to have—namely, discretionary powers to freeze prices and wages. In spite of the political inexpediency of having to order price and wage controls prior to an election the inflation in the economy might possibly compel him to do so. Under these circumstances would the Federal Reserve's move to do any good? Or harm? If it was to be a benefit might not its psychological value be greatest at this time? Might it not help to forestall the necessity for Presidential action on prices and wages? And, after election, if it seemed expedient to resolve any questions in favor of the Treasury, could this not be done then just as well as now? Undoubtedly the Board of Governors must have seemed determined.

Piecing Together the Picture

If this is a likely bit of conjecture, one can piece together the remaining parts of the picture rather easily. The Federal's decision was made known to the Treasury before the Secretary officially jelled the terms of his offering. The Board's action could well have appeared to be, if not an ultimatum, at least another *fait accompli*. If this were the case would not the Secretary have had to accept either the Federal's decision or the challenge it entailed? Could he accept the decision and live with an opposing conviction as to the best interests of debt management and national welfare? In such circumstances might he not have done exactly what he did—and with some justification for the belief that the Board might at the last moment change its mind?

And if the Secretary had had in mind a combined offering of 1¼s and 1½s, might he not then have failed to bring the latter into his conversations with the Federal, in view of the Federal's insistence that the rate pattern be increased, and of their sales of the outstanding 1½% issue at only a few 32nds above 100. And, certainly if he felt that he must follow his convictions, would he not have to recognize that the Federal Reserve might be equally forced to follow theirs? Again if this is true, the Secretary certainly would have omitted in his last-minute decision any offering of a 4¾- or 5-year 1½% note. I am certain in my own mind that the Treasury did not confine its refunding offering solely to 1¼% in order to disappoint the market or to squeeze rates. The Federal still held a substantial amount of 1½s which they could have continued to sell had the Board changed its contemplated program. I believe that the regrettable public break between the Treasury and the Federal came about somewhat in this manner and because each party felt compelled to live up to their convictions as to the best interests of the nation as a whole.

Subsequent events have underscored the Federal Reserve's determination to pursue its course notwithstanding the Treasury's decisions. At the same time the methods to be employed have become more clear. The Federal protected the market for the maturing securities or rights but it offered outstanding securities at better yields than that offered by the Treasury. And it improved these yields progressively as trading went along. The first holders of maturing securities to make their exchanges in the market (with the supply coming largely from the Federal) found that they had paid too much for their reinvestments. Those who exchanged on the second day found that they fared better but not as well as those who waited until the third day. As this picture developed most of those who still held their "rights" decided to "sit it out." In the end the Treasury had to redeem for cash almost $1,400 million of the $7-odd billion which matured yesterday. Until the last moment when the Federal Reserve made a compromise in its bids the prospect was that the amount of securities redeemed would materially exceed this figure.

This phase of the Federal Reserve's open market technique is noteworthy because it shows how its handling of the market can affect the public state of mind. Investors were very quick to recall the dropping of the pegs on Christmas Eve, 1947. They recalled also repeated rumors that many Reserve officials believed that 2½% restricted bonds should not be supported at 100. The Secretary of the Treasury had publicly stated that his best estimate of the fair value for $14 billion of new Treasury securities was 100 for a 1¼% coupon of approximately 13 months' term. The Federal Reserve replied by saying that this estimate of the Treasury was too high and it proceeded to make its judgment prevail. Today the Federal Reserve will sell these same 1¼% securities to yield the investor 1.35%.

Against such a background might not an increasing number of average holders of savings bonds question whether they had a good investment even though the Secretary of the Treasury has told them so. May not an increasing number of people place more credence in the statements of columnists, letter writers and economists that the future purchasing power of the dollar will buy less and, therefore, both savings bonds and money will be worth less tomorrow than today?

What About Future?

Many professional investors are wondering just what the score is and what is likely to be. Will the Federal Reserve continue to support the price of Treasury securities? And, if the Federal supports them today will they support them or sell them tomorrow? This, however, is not a chapter from "Alice In Wonderland" or the last chapter of that book. The Federal obviously believes that further attrition in the purchasing power of the dollar is a more grave risk than that involved in overruling the Treasury and upsetting the market. Apparently it hopes to obtain an increased control over the reserve positions of member banks. It hopes to do so by creating a price level for bank-eligible securities such that sales by banks for the purpose of obtaining reserves to extend credit will entail a restraining loss. It hopes to increase the cost of money that savings banks and insurance companies may need to raise through the sale of comparable Treasury securities. It probably hopes to translate some of the demand for credit from banks to non-banks and thereby increase the competition for non-bank investable funds. If this were to be the case it would increase competition for such funds, increase the cost of money to the borrower, and make credit less available to some borrowers. In such a program the market rates for all Treasury securities and high-grade corporate bonds should rise and their prices decline. Whether under such a procedure the one-year Treasury rate proved to be 1.35%, 1⅜% or 1.40% is relatively unimportant—at least to the Federal. A continuing increase in bank loans and bank credit may well be the signal for an increase in the required reserves of member banks. Sales of Treasury securities necessary to meet these in-

With Piper, Jaffray

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn. — Drew C. Simonson is with Piper, Jaffray & Hopwood, 115 South Seventh Street, members of the New York and Midwest Stock Exchanges.

Slayton Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST LOUIS, Mo.—Coyle T. Atchison has been added to the staff of Slayton & Company, Inc., 408 Olive Street.

Joins Waddell-Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Joseph A. Grant and Earl Russell are now affiliated with Waddell & Reed, Inc., 408 Olive Street.

creased requirements would have to be made almost entirely to the Federal and the rate at which the Federal was willing to purchase them would be important.

But a limiting factor exists. In 1947 and 1948 it caused the anti-inflationary objectives of the Federal to boomerang in a big way. This limiting factor is a necessity to support the Treasury 2½% long-term bonds at 100 or higher. If such bonds are not supported in a manner that will insure public confidence in their dollar price—not in the purchasing power of their income but in their dollar price—sellers might flood the market very quickly. Headlines of large-scale price support might accentuate the declining trend in E bond sales. It could bring about a measurable enlargement of redemptions. Many holders of F and G bonds would decide to cash them, in my judgment, the moment 100 protection for 2½% bonds was violated or in prospect. That the Federal Reserve is aware of this danger is demonstrated by its sharp reversal from the biggest seller to a substantial buyer of bonds with a maturity of more than five years. For the week ending with the close of business last Tuesday, the Federal Reserve bought $98 million of these bonds.

In view of the existing state of the public mind, it has been and will continue to be inevitable that protection of the purchasing power of the dollar is hopelessly entangled with 100 or better protection for the longer-term 2½% bonds. This does not mean pegged rates forever. It does mean that every important change in the management of the public debt and in monetary policies either must be related to the existent state of the public mind or the latter must be fully prepared for the contemplated changes and their consequences.

One is bound to sympathize with the members of the Federal Reserve Board and the Open Market Committee in the dilemma in which they have found themselves during the past eight years and in the new dilemma into which they have been led by their convictions, fortitude and integrity. One must sympathize also with the Secretary of the Treasury for similar reasons but sympathy will not resolve the open break or bring about the desired coordination. We can only hope that the Federal Reserve will tread cautiously, that its judgment will be superlative and that the resolution of the problems will be found without the necessity of resorting to Congress.

This completes the story of the background and the picture to date.

The Near Future

As to the outlook for the near future I expect to see strong support rendered the restricted market. If this support is not rendered adequately by the Federal Reserve the Treasury may decide to use its trust funds instead. In such event the Treasury undoubtedly would have to raise funds in the market via the sales of other securities, but the monetary inflation which would result if such sales were made to commercial banks probably would be far less than could result from the loss of confidence in the stability of the 2½% rate.

I do not expect such support for from 2½s to assume large proportions if it is rendered in a bold and "willing" fashion. Further, as real estate and other credit controls take hold and as the defense program moves into high gear today's sellers may be among tomorrow's buyers.

I expect to see the development of a somewhat higher short-term rate in order that the credit restraining objectives of the Federal Reserve may be better implemented but I believe that the upper limit for the one-year rate is unlikely to exceed 1½%. And unless required reserves are increased, the rate may not go that high.

The prospects for an increase in reserve requirements are good but they are not a foreclosed event. Such an announcement might come within 30 days. If you believe that you may need to raise funds in the near future through the sale of bank-eligible Treasury securities, I would suggest that you do so now rather than later. The selection of issues to be sold should be based on your customary portfolio considerations.

If you contemplate the necessity to sell restricted bonds, I would not rush to market ahead of time. The selection of the issues to be sold in this instance also should follow your customary considerations but where an equal choice exists between the sale of the shorter-term 2¼s and 2½s to the longer-term bonds, I would sell the shorter.

If you contemplate increasing your investments in Treasury securities, I would buy marketable restricted bonds in preference to the Series F and G bonds. The more the Treasury is encouraged by your purchases to use non-marketable securities as a medium for raising new funds, the closer our financial institutions are moved toward a tight Federal control of their activities.

Continued from page 14

World Bank Progress In Troubled Times

ways to break bottlenecks which had interfered with the effective distribution of goods, to augment substantially the output of hydroelectric power in the Western Hemisphere, and to expand food production in a number of countries.

Increasingly, we have been able to supplement financial assistance with technical help and advice. If, through comprehensive survey missions such as those we have sent to Colombia, Turkey, Guatemala and Cuba, we can assist those of our member states desiring such assistance to use their own resources more effectively, we should be able to contribute more to their development than through financial aid alone.

Bank's Credit Established

We have firmly established our credit, so that we are now in a position to raise all the funds that we are likely to need for loans, during the next few years at least. While the bulk of our borrowing has necessarily been in the United States market, it is heartening to me to see the markets of other countries opening to our obligations and to note that those obligations are receiving the high credit standing which I believe is justly theirs. To use but a single illustration, the Bank's bonds are the only dollar obligations which, up to now, have been permitted to be listed on the Paris Bourse. This action recently taken by the French authorities—and similar actions previously taken by a number of other countries—reflect, I believe, the unique nature of our securities, backed as they are not only by our portfolio of loans but by the guarantee of 49 sovereign nations.

It is also encouraging to note the increasing number of member countries which have authorized the Bank to begin lending their 18% capital subscriptions. While I realize that many member countries may be unable to give their unconditional consent at this time to large quantities of unrequited exports, I attach great importance to our increasing ability to draw on our 18% funds. This will widen the scope of our loan transactions — in intra-European lending, to use but one example—and will make the Bank a more truly international institution. This, in my judgment, is essential if the Bank is to carry out fully its intended functions.

Because our credit has been firmly established, we have been able to set up a system of loan charges which compares very favorably with the current yield on most dollar bonds as well as with the domestic interest rates prevailing today in the majority of our member countries. It is, I think, worthy of note that, within the last few weeks, we have found it possible substantially to reduce our commitment charge and to apply that reduction not only to future loans but to the undisbursed amounts of loans already made.

Lending Standards

Finally, we have established lending standards which, I believe, mark a new step forward in the history of international investment. Our concern throughout has been that every loan we make should be of material benefit to the economy of the borrowing member. This has meant careful scrutiny of the particular project or program for which financing is requested and of the relation of that project or program to the economy of the country as a whole. We have been concerned to assure not only that the prospective gain to the borrower over-balances the burden of the debt obligation, but even more important, that the project financed has been accorded proper priority in the borrower's development plans.

We have also been concerned to encourage an appropriate international division of labor by taking into account such factors as the proximity of proposed projects to the source of raw materials and to prospective markets, the availability of necessary skills, and the many similar elements which influence production and distribution costs. Certainly, in the usual case it only impedes development and wastes scarce capital resources to finance projects which cannot produce on competitive terms and which depend for their continuance upon artificial government supports.

In its lending operations the Bank is resting solidly on the two pillars upon which must be built a strong and lasting revival of international investment, especially of private investment. First, we have taken every opportunity to stress the need for reestablishing the integrity of international loan contracts. And, second, in our own loans we have taken all reasonable precautions to satisfy ourselves of the ability and willingness of the borrowers to repay them. The standards we have established have, I think, done much towards reviving and proving the idea that international investment can be carried on with adequate rewards both to the borrower and the lender.

The Bank, then, has established a firm foundation for its future work. Within the limits of sound investment practice, it is a flexible institution, ready to adapt itself to changing circumstances. The effectiveness of its contribution in the years ahead, however, depends not only on a continuation of its own efforts, but at least equally upon the efforts of the governments with which it deals.

Intra-European Cooperation

Here, in Europe, much progress is being made in hammering out new patterns of production and trade to replace and improve pre-war patterns that cannot be restored. Habits of economic cooperation have been formed which are already facilitating the necessary readjustments; I think we may confidently expect that these habits will be lasting and will result in even further progress in intra-European cooperation and in the integration of European industries. The Bank is ready to furnish whatever assistance may be within its capacity to help in this forward movement.

In some of the underdeveloped nations, I think we can also perceive an accelerating tempo of economic activity and an increasing willingness to grapple with the tough problem of development. In others, however, less progress is discernible.

I have noticed a tendency at times for development to be regarded as something which is due, as of right, from the more advanced nations to those less well developed. Whatever the rights and obligations of different nations may be, development is not something which can be imported from abroad. It is something which can only be won internally by acceptance of responsibility, hard work and sacrifice.

What Underdeveloped Nations Must Do

In the few minutes which remain, I would like to examine with you some of the steps which, as I see it, the underdeveloped nations must take if they are effectively to translate external financial assistance into the concrete substance of development. The steps are easy to state but hard to take; their implications are obviously far-reaching. But unless they are taken, the Bank's aid is likely to be of little value and the development problem may remain unsolved.

A first essential seems to me to be the formulation of a properly balanced development program, calling for investment expenditures which are within the capacity of the country concerned, including its capacity to borrow abroad, and for the allocation of those expenditures among different types of projects in accordance with an appropriate pattern of priorities. I do not minimize the courage, the far-sightedness or the restraint which this task requires. It involves, for example, rejecting political pressures for monumental showpieces, and the pressures of vested interests for enhancement of their position. It involves difficult judgments as between the claims of different regions of the country and as between those of different elements of the community within each region. But development is only hindered if more is undertaken than can be completed, or if the projects selected for immediate execution are not those which contribute most to the strength of the economy as a whole.

A corollary to the formulation of a proper investment program is the adoption and vigorous execution of appropriate fiscal policies. I am thinking not only of the need to avoid the distortions in an economy which are always the fruit of inflation. I am thinking as well of the adoption of tax systems and other policies which will make available a greater share of domestic wealth for development purposes. It is, I suggest, a dangerous fallacy to believe that the standard of living of the masses can be raised without some alteration of those economic structures which permit a relatively few people to enjoy most of a nation's income.

In some countries, too, a fairer allocation of the country's resources may be necessary to provide the ordinary people with both the means and the motive to increase their productive output. I think the history of almost all the more industrialized nations of the world demonstrates that development is rapidly advanced only when real incentives and opportunities exist for the individual to push forward as he himself sees fit: The farmer to improve his land and grow more crops, the small merchant to develop his business, and the artisan to start his own small factory.

Basic to all these steps is an improvement in health, in education and in public administration. This will not come quickly and it will not be achieved easily. But for that reason it is all the more essential that the task be undertaken with a sense of urgency commensurate with its importance.

In this whole process of development, the Bank can, I think, play a significant role. We can provide financial support for some of the most useful projects which we hope will generate additional productive endeavor on a broad front. We can provide impartial advice on questions of priorities and on means for better mobilization of local resources. And with the cooperation of our members, we can aid, I believe, in creating confidence and the kind of economic environment which will encourage productive investment, both local and foreign, private and public.

The task before us seems to me, fundamentally, to be one of great hope and promise. In this time of trouble and disturbance in the world, let me remind you that the Bank was not founded to be a fair-weather institution. It has no intention of behaving like a fair-weather institution now. We will continue to press ahead with such skill and strength as we have at our command.

With Norman Mesirow

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Francis A. Kenney is now with Norman Mesirow, 135 South La Salle St., member of the New York Stock Exchange.

With E. F. Hutton Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Ruth L. Petersen is now connected with E. F. Hutton & Company, Board of Trade Building.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Sept. 24	100.4	99.6	90.6	86.2
Equivalent to—					
Steel ingots and castings (net tons)	Sept. 24	1,936,400	1,921,000	1,747,400	1,589,100
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Sept. 9	5,908,830	5,759,630	5,674,750	4,903,450
Crude runs to stills — daily average (bbls.)	Sept. 9	†5,971,000	6,109,000	6,044,000	5,248,000
Gasoline output (bbls.)	Sept. 9	19,595,000	20,171,000	20,305,000	18,270,000
Kerosene output (bbls.)	Sept. 9	2,172,000	2,310,000	2,121,000	1,992,000
Gas, oil, and distillate fuel oil output (bbls.)	Sept. 9	7,831,000	7,825,000	7,687,000	6,455,000
Residual fuel oil output (bbls.)	Sept. 9	8,285,000	8,219,000	7,787,000	7,808,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 9	106,381,000	105,563,000	108,518,000	104,375,000
Kerosene (bbls.) at	Sept. 9	26,640,000	25,670,000	23,628,000	26,608,000
Gas, oil, and distillate fuel oil (bbls.) at	Sept. 9	71,597,000	69,179,000	63,053,000	78,231,000
Residual fuel oil (bbls.) at	Sept. 9	42,727,000	41,437,000	41,810,000	69,161,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 9	751,276	852,321	847,465	623,962
Revenue freight received from connections (number of cars)	Sept. 9	642,136	707,459	704,085	521,211
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Sept. 14	$219,743,000	$256,077,000	$250,145,000	$156,021,000
Private construction	Sept. 14	123,324,000	192,884,000	169,697,000	65,175,000
Public construction	Sept. 14	96,419,000	63,193,000	80,448,000	89,846,000
State and municipal	Sept. 14	77,314,000	59,434,000	77,655,000	84,226,000
Federal	Sept. 14	19,105,000	3,759,000	2,793,000	5,620,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 9	10,020,000	11,020,000	10,875,000	6,155,000
Pennsylvania anthracite (tons)	Sept. 9	768,000	951,000	962,000	789,000
Beehive coke (tons)	Sept. 9	118,800	149,400	147,000	10,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 9	295	310	273	273
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 16	6,449,101	6,028,527	6,369,830	5,579,105
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Sept. 14	165	145	186	185
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 12	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Sept. 12	$46.61	$46.61	$46.61	$45.88
Scrap steel (per gross ton)	Sept. 12	$40.75	$40.58	$40.25	$25.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 13	22.875c	23.500c	22.200c	17.325c
Export refinery at	Sept. 13	24.425c	24.425c	22.425c	17.550c
Straits tin (New York) at	Sept. 13	102.000c	97.500c	105.000c	103.000c
Lead (New York) at	Sept. 13	16.000c	15.000c	12.000c	15.125c
Lead (St. Louis) at	Sept. 13	15.800c	14.800c	11.800c	14.925c
Zinc (East St. Louis) at	Sept. 13	17.500c	15.000c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Sept. 19	101.70	161.68	102.07	103.90
Average corporate	Sept. 19	115.63	116.02	116.02	115.04
Aaa	Sept. 19	119.61	120.43	120.84	121.04
Aa	Sept. 19	118.80	119.20	119.61	119.20
A	Sept. 19	115.24	115.43	115.63	114.27
Baa	Sept. 19	109.24	109.42	108.88	106.39
Railroad Group	Sept. 19	111.81	112.19	111.62	109.79
Public Utilities Group	Sept. 19	116.02	116.41	117.00	116.22
Industrials Group	Sept. 19	119.00	119.61	119.82	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Sept. 19	2.37	2.37	2.34	2.22
Average corporate	Sept. 19	2.87	2.85	2.85	2.90
Aaa	Sept. 19	2.67	2.63	2.61	2.60
Aa	Sept. 19	2.71	2.69	2.67	2.69
A	Sept. 19	2.89	2.88	2.87	2.94
Baa	Sept. 13	3.21	3.20	3.23	3.37
Railroad Group	Sept. 19	3.07	3.05	3.08	3.18
Public Utilities Group	Sept. 19	2.85	2.83	2.80	2.84
Industrials Group	Sept. 19	2.70	2.67	2.66	2.68
MOODY'S COMMODITY INDEX	Sept. 19	474.2	476.2	457.0	347.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 9	191,916	317,217	237,995	172,955
Production (tons)	Sept. 9	180,467	229,360	224,414	157,135
Percentage of activity	Sept. 9	81	100	99	72
Unfilled orders (tons) at	Sept. 9	738,187	729,058	646,656	380,248
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Sept. 15	135.6	134.2	129.2	129.6
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Sept. 2	22,266	26,210	28,880	13,231
Number of shares—Customers' total sales	Sept. 2	670,102	787,256	864,172	368,146
Dollar value	Sept. 2	$28,706,532	$34,170,449	$36,852,830	$14,620,408
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 2	23,381	26,575	25,366	16,132
Customers' short sales	Sept. 2	222	223	191	157
Customers' other sales	Sept. 2	23,159	26,352	25,175	15,975
Number of shares—Customers' total sales	Sept. 2	663,011	765,272	727,097	430,572
Customers' short sales	Sept. 2	8,893	8,657	7,395	5,860
Customers' other sales	Sept. 2	654,118	756,615	719,702	424,712
Dollar value	Sept. 2	$25,091,286	$29,381,396	$27,193,488	$13,494,269
Round-lot sales by dealers—					
Number of shares—Total sales	Sept. 2	214,530	267,270	201,610	183,960
Short sales	Sept. 2	------	------	------	------
Other sales	Sept. 2	214,530	267,270	201,610	183,960
Round-lot purchases by dealers—					
Number of shares	Sept. 2	229,860	258,960	341,650	132,670
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Sept. 12	168.9	*167.7	164.9	154.6
Farm products	Sept. 12	181.7	*179.5	175.4	166.0
Grains	Sept. 12	166.5	168.2	167.4	157.6
Livestock	Sept. 12	241.5	239.6	239.1	214.2
Foods	Sept. 12	178.7	*177.2	174.2	164.5
Meats	Sept. 12	260.4	260.0	255.1	237.7
All commodities other than farm and foods	Sept. 12	157.7	*156.5	154.1	145.4
Textile products	Sept. 12	156.2	*152.8	147.6	139.3
Fuel and lighting materials	Sept. 12	134.9	134.7	134.0	129.9
Metals and metal products	Sept. 12	175.6	*174.7	174.2	167.7
Building materials	Sept. 12	220.0	218.2	214.3	189.6
Chemicals and allied products	Sept. 12	127.3	125.2	121.7	118.0

*Revised figure. †Includes 497,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of July:			
Total gas (M therms)	2,711,139	2,926,174	2,220,598
Natural gas sales (M therms)	2,499,773	2,679,562	2,016,811
Manufactured gas sales (M therms)	130,079	152,222	135,188
Mixed gas sales (M therms)	81,287	94,390	68,599
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of August	8,194,581	*8,071,294	6,722,771
Shipments of steel products, including alloy and stainless (net tons)—Month of July	5,668,898	6,192,438	4,534,855
AMERICAN TRUCKING ASSOCIATION—Month of July:			
Number of motor carriers reporting	300	*300	*300
Volume of freight transported (tons)	4,139,239	*4,277,036	3,085,099
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of August 31:			
Imports	$237,634,000	$210,624,000	$116,864,000
Exports	87,297,000	80,160,000	37,440,000
Domestic shipments	11,864,000	11,788,000	8,694,000
Domestic warehouse credits	14,062,000	9,811,000	9,384,000
Dollar exchange	1,372,000	500,000	1,039,000
Based on goods stored and shipped between foreign countries	21,410,000	22,065,000	15,892,000
Total	$373,639,000	$334,948,000	$189,313,000
COAL OUTPUT (BUREAU OF MINES)—Month of August:			
Bituminous coal and lignite (net tons)	49,983,000	35,350,000	*37,615,000
Pennsylvania anthracite (net tons)	4,398,000	*2,875,000	3,710,000
Beehive coke (net tons)	630,000	*509,100	46,300
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of July:			
Cotton Seed—			
Received at mills (tons)	128,307	47,229	117,352
Crushed (tons)	177,800	208,265	146,611
Stocks (tons) July 31	284,500	333,993	132,498
Crude Oil—			
Stocks (pounds) July 31	47,667,000	50,748,000	52,233,000
Produced (pounds)	57,790,000	68,051,000	48,656,000
Shipped (pounds)	64,341,000	87,477,000	66,671,000
Refined Oil—			
Stocks (pounds) July 31	167,553,000	225,034,000	132,766,000
Produced (pounds)	59,523,000	80,792,000	61,255,000
Consumption (pounds)	118,382,000	114,983,000	110,959,000
Cake and Meal—			
Stocks (tons) July 31	136,002	163,360	65,949
Produced (tons)	80,988	93,264	66,340
Shipped (tons)	108,346	109,016	88,745
Hulls—			
Stocks (tons) July 31	73,634	81,712	94,892
Produced (tons)	43,146	50,714	34,605
Shipped (tons)	51,224	48,314	49,571
Linters (running bales)—			
Stocks July 31	65,009	73,799	141,773
Produced	49,546	57,596	44,193
Shipped	58,336	82,301	83,318
Hull Fiber (1,000-lb. bales)—			
Stocks July 31	134	121	848
Produced	177	250	467
Shipped	164	349	490
Motes, grabbots, etc. (1,000 pounds)—			
Stocks July 31	2,386	3,326	7,349
Produced	967	1,252	749
Shipped	1,907	2,400	2,417
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of August:			
Industrials (125)	6.66	6.36	6.61
Railroads (25)	5.99	5.89	8.94
‡Utilities (24)	5.92	5.99	5.77
Banks (15)	4.50	4.50	4.51
Insurance (10)	3.51	3.74	3.26
Average yield (200)	6.39	6.17	6.50
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of August	£9,418,000	£13,854,000	£2,221,000
NEW YORK STOCK EXCHANGE—As of Aug. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,230,545	$1,208,326	$699,149
Credit extended to customers	126,455	103,143	74,697
Cash on hand and in banks in U. S.	340,951	348,050	288,130
Total of customers' free credit balances	708,220	712,050	547,657
Market value of listed shares	85,053,070	82,000,115	68,667,723
Market value of listed bonds	125,256,745	125,209,399	133,642,800
Member borrowings on U. S. Govt. issues	178,352	222,849	144,381
Member borrowings on other collateral	663,647	713,650	393,318
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—Month of June (000's omitted):			
Savings and Loan associations	$489,751	$461,474	$323,188
Insurance companies	135,918	120,743	91,368
Banks and Trust companies	301,137	293,452	204,949
Mutual Savings banks	96,738	84,688	61,889
Individuals	202,846	199,900	173,314
Miscellaneous lending institutions	239,059	217,661	163,719
Total	$1,465,469	$1,377,918	$1,018,427
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of June:			
Net railway operating income	$90,046,715	$67,031,549	$61,111,556
Other income	22,625,242	22,589,498	23,394,291
Total income	112,671,957	89,621,047	84,505,847
Miscellaneous deductions from income	3,893,041	4,087,417	2,582,771
Income available for fixed charges	108,778,916	85,533,630	81,923,076
Income after fixed charges	75,237,257	48,342,246	45,332,067
Other deductions	3,187,621	3,121,401	3,029,253
Net income	72,049,636	45,220,845	42,302,814
Depreciation (way & structures & equip.)	35,725,621	35,552,043	34,029,963
Amortization of defense projects	1,372,254	1,369,037	1,372,995
Federal income taxes	34,360,843	31,370,587	24,059,206
Dividend appropriations:			
On common stock	13,276,309	25,795,150	12,844,577
On preferred stock	1,464,695	7,372,741	1,055,752
Ratio of income to fixed charges	3.24	2.30	2.24
UNITED STATES GROSS DEBT DIIRECT AND GUARANTEED—(000's omitted):			
As of July 31	$257,891,449	$257,556,877	$255,879,042
General fund balance	5,185,231	4,500,477	4,417,886
Net debt	$252,706,218	$253,056,400	$251,461,156
Computed annual rate	2.200%	2.200%	2.230%

*Revised. ‡Not including stock of American Tel. & Tel.

Continued from first page

What's Ahead for The Bond Market?

In the third place, the Federal Reserve authorities pursued an easy money policy to facilitate the financing of the huge wartime deficits of the Treasury.

As a matter of fact, we would have had a much greater rise in bond prices and decline in yields during World War II, were it not for the huge bond offerings put out by the Treasury in its successive war loan drives. These offerings provided life insurance companies, savings banks and other thrift institutions with a much-needed outlet for new funds. Were it not for these "tap" offerings, we may be sure that bond prices would have been driven considerably higher, and yields would have been depressed much further, by the acute wartime shortage of other institutional investments.

If we were to be guided solely by the World War II experience, therefore, we should expect a strong bond market now that we are again in a war economy.

Savings banks would be well advised, in that event, to bid actively for available investments, before a shortage of new institutional investments and a return to an aggressive easy money policy on the part of the Federal Reserve authorities drive yields still lower.

But Mr. Ihlefeld [see page 15] has emphasized the all-important point that we are now in a limited, not a total, war. Our Generals in the field are learning that they must modify strategy and tactics to fit the different kind of war in which we are now engaged. Similarly, in appraising the outlook for the bond market, we must take fully into account the radically different kind of war economy this type of conflict will produce.

New Means of Combating Inflation

In World War II, chief reliance to prevent inflation was placed on price controls. It was assumed that price ceilings made it unnecessary to try to balance the budget and to restrict credit expansion.

We know now that this was a delusion. Price ceilings merely postponed, they did not prevent, inflation. Once ceilings were lifted, the wholesale price level rose more than 60% under the pressure of our inflated money supply.

In this limited war, it is the stated policy of the Government to combat inflation by more orthodox measures which seek to correct underlying causes, rather than mere symptoms. It is planned to defray most of the costs of limited warfare by higher taxes. At the same time, the Federal Reserve authorities say they are determined to combat credit expansion by direct credit controls like Regulation W, and by raising short-term interest rates, even against Treasury opposition to such a policy.

It is not to be expected, therefore, that the impact of limited war upon the bond market will be a repetition of what happened in World War II. Reduction in the volume of corporate and municipal financing and in mortgage borrowing will be gradual and moderate. During World War II there was virtually a cessation of new corporate and municipal bond issues and almost no new home mortgages available. Now, with the tax increases already in effect and others in the offing, new financing by the Treasury should be on a far smaller scale than was necessitated by the huge deficits of World War II. And the Federal Reserve authorities are showing great courage in pursuing a restrictive credit policy and are making a real contribution to the battle against inflation.

The scope of the anti-inflation measures already adopted since the outbreak of the war in Korea, and others in prospect, encourage the hope that this time we may really escape a further major rise in commodity prices and another substantial cut in the purchasing power of the dollar. Whether the anti-inflation effort is entirely or only partly successful, we may expect stability of interest rates at about present levels, and a minimum of deficit financing as a result of it.

Conclusions As to Bond Market Outlook

In the light of this background, I think the following conclusions are indicated with regard to the outlook for the bond market in the period ahead:

(1) Longer-term Government bonds are likely to hold close to their present prices. In the event of strength developing in the market, further sales by the Federal Reserve banks are to be expected to prevent a decline in interest rates that might stimulate inflation. On the other hand, additional weakness in the market should bring renewed Federal Reserve buying support, since it remains the policy of the system to maintain "orderly conditions in the Government securities market"—a phrase that has hitherto meant that longer-term issues would be supported somewhat above par. With a war emergency, it is the more likely that the market will be pegged in periods of weakness, since it could become necessary to sell new issues in substantial volume should the international crisis become aggravated.

(2) The volume of corporate financing and mortgage borrowing will decline, although the contraction may be quite gradual and moderate, typical of a limited as opposed to a total war situation. The decline in the supply of corporate bonds will tend to prevent yield differentials between corporates and governments from widening, and may even cause them to narrow somewhat. Because insurance companies are satisfied with narrow yield differentials and so bid aggressively for available corporate bonds, it is doubtful that many such issues will be attractive, as compared with Governments, for mutual savings banks.

(3) Higher tax rates and a probable decline in the volume of offerings of tax-exempt obligations will make for strength in the market for State and municipal obligations. The long-awaited large volume of tax-exempt Federal housing bonds will not materialize in a limited war economy.

On the basis of these prospects for the bond market, the following would be rational features of an investment policy for mutual savings banks:

(1) Amortizing mortgages meeting reasonable quality standards remain a highly desirable investment for savings institutions because they provide a satisfactory rate of return with safety. They will be more difficult to secure as military preparations expand. The sustained period of high level production and employment that is ahead and the contraction in the volume of building will tend to improve the quality of outstanding mortgages.

(2) Long-term Government bonds are attractive because of the high quality and liquidity they provide, especially when they can be bought close to par. At current levels, they involve only a very slight risk of adverse price fluctuations. The increases in taxes already voted and contemplated will reduce deficit financing, and so lessen the prospective supply of new long-term Treasury bonds that will need to be offered to raise new money. It is improbable, therefore, that there will be early opportunities to subscribe to new long-term marketable Treasury bonds at par as part of a new offering.

The F and G Bonds

(3) Marketable Treasury bonds acquired at a small premium appear more attractive than Series F and G bonds, which thrift institutions can purchase this year up to $1,000,000 in excess of the usual $100,000 subscription annual limit. Marketable bonds provide much greater flexibility to the portfolio manager. In the event of a change in economic conditions, he could switch from such bonds to other investments without suffering a substantial yield penalty such as occurs with savings bonds cashed before maturity. Since there are very good reasons to believe that Government bonds will continue to be supported at or above par by the Federal Reserve banks, the added risk of holding a marketable bond seems negligible, and the yield is very nearly the same, when the market premium above par is small.

(4) Mutual savings banks are likely to become more interested in State and municipal bonds and other tax-exempt obligations, in view of the statement by Senator George that the new tax bill planned for early next year will impose a Federal levy on mutual savings banks. Once mutual institutions are taxed, they will want to compare the net return after taxes provided by various types of investment so far as the taxed portion of their income is concerned. It may be found that certain State and municipal bonds are more attractive on this basis.

To summarize, I think that the anti-inflation program being pursued in Washington and by the Federal Reserve authorities means that we will not have a repetition of the extreme easy money policy of World War II. Therefore, there will not be the decline in yields from bond investments that would result from a further broad decline in interest rates.

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Current Investment Problems of Savings Banks

the changed conditions we now face.

The Supply of Other Investments

While sharply increased defense spending will tend to lift the level of industrial activity, it is far from certain that there will be an increase in the volume of new corporate bond financing. In fact, the opposite may prove true, as was the case during World War II.

Some industries may curtail their capital expenditure programs. This applies particularly to those turning out civilian goods. Shortages of materials and higher prices will tend to discourage outlays for plant and equipment in these cases.

Producers of military goods, on the other hand, can finance their capital needs with the aid of the Government. Where this is done, there will be no reason for them to resort to bond financing.

American corporations, outside the public utility field, have resorted to bond financing in recent years to a much smaller extent than in the past. They have relied mainly upon internal sources of funds to finance expansion. This tendency has been encouraged by heavy taxes upon personal incomes, which has caused stockholders to be reconciled to the distribution of a smaller percentage of earnings as dividends. The further increase in personal income taxes provides added incentive to retain a large proportion of earnings in the business, thus lessening borrowing needs.

It is likely that the volume of municipal and other tax-exempt bond financing also will decline. A sharp cut in public housing activity has already been ordered by the President. Materials shortages and higher prices, as well as requests from the Federal Government, should lead to curtailment of other types of public works that are not urgently required. At the same time that the volume of tax-exempt offerings will decline, demand for municipal bonds from commercial banks and individuals has been stimulated by the prospect of tax increases, reducing further the supply available to other classes of buyers.

The net effect of the limited war economy is thus likely to be in time a curtailment of the aggregate supply of mortgages, corporate obligations and tax-exempt bonds. Particular interest attaches, therefore, to the outlook for new offerings of Treasury bonds at rates of return adequate for the requirements of savings institutions.

Treasury Financing Prospects

It is highly desirable to finance increased military needs on a "pay-as-we-go" basis, in order to reduce the danger of inflation. But the new taxes voted to date fall short of the prospective increase in government spending. Therefore, we need to look to certain Treasury policies for help in keeping inflation in check.

The danger of inflation due to heavier government spending would be lessened as I have said if:

(1) The Treasury deficit is financed by the sale of securities to others than commercial banks.

(2) Maturing Treasury securities are refunded, so far as possible, through the sale of obligations to other than commercial banks.

(3) Commercial bank loans and other investments are reduced, to offset any expansion of their government security holdings.

Such a Treasury financing and credit control policy would avoid adding to the already very large money supply. It was the extensive purchases of government securities by commercial banks in the World War II period made necessary by inadequate tax levies that was the root cause of the great inflation which developed from that war.

Opening of Series F and G savings bonds to additional subscriptions by savings institutions, up to $1,000,000 for each institution, shows the Treasury's intention to finance the government deficit, so far as possible, through sales of securities to other than commercial banks.

It is completely compatible with the Treasury's oft-stated public debt management policy for it to offer new marketable bond issues to mutual savings banks and other thrift institutions during the current emergency. The Treasury has said again and again that it seeks to fit terms of its security offerings to the requirements of the several classes of investors. Since the aggregate supply of mortgages and other investments available to thrift institutions is likely to be inadequate to meet their investment requirements, the Treasury should be prepared and willing to fill the gap by offering long-term marketable bonds with a 2½% coupon, restricted to such buyers. It would be logical to give such bonds a maturity of approximately 25 years, as was done in the World War II loan drives. However, offerings of long-term marketable bonds are not yet in sight.

Conclusions

The limited war economy, in which we may be living for a long time, is thus likely to have the following effects upon the investment problem of mutual savings banks:

(1) An upward trend in savings is likely to be resumed as the hoarding spree ends and consumer spending returns to more normal patterns though at a far lesser rate of increase than was experienced during World War II. Only fears of further inflation that would divert savings to other outlets could check a resumed rise in savings bank deposits.

(2) The supply of new mortgages will in time be reduced by credit controls, materials and labor shortages, and rising prices, while existing mortgage holdings will be gradually reduced by payments on principal.

(3) The supply of corporate and tax-exempt obligations is not likely to expand.

(4) The Treasury will offer long-term bonds suitable both to combat credit inflation and to satisfy the investment requirements of savings institutions.

Changes in savings banks earning assets to be brought about by these conditions will maintain their high quality and increase liquidity. But some narrowing of the margins of earnings over expenses and dividend payments is to be expected. Maintenance of adequate earning power is thus likely to become a more pressing problem for savings bank managements as the limited war period is prolonged.

With Milwaukee Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John F. Fralick II has become associated with The Milwaukee Company, 135 South La Salle Street. Mr. Fralick previously was with Blyth & Co., Inc.

With McDonald, Evans

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo. — Robert W. Brown is now associated with McDonald, Evans & Co., 1009 Baltimore Avenue. He was previously with A. H. Bennett & Company.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alabama Power Co., Birmingham, Ala.
July 28 filed 64,000 shares of 4.20% preferred stock (par $100) offered in exchange for a like number of outstanding 4.20% preferred shares of Birmingham Electric Co. No underwriter. Offer expires Sept. 22. Statesment effective Aug. 29.

Allen Organ Co., Allentown, Pa.
July 19 (letter of notification) 1,500 shares of 6% preferred stock (par $100) and 750 shares of common stock (par $100). **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion of plant and development of other electronic products. **Office**—8th and Pittston Streets, Allentown, Pa.

• Aloilco Corp., Birmingham, Ala.
Sept. 15 (letter of notification) 200,000 shares of capital stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—For acquisition of oil, gas and other property rights in Alabama and Texas. **Office**—620 Massey Bldg., Birmingham, Ala.

American-Canadian Uranium Co., Ltd. (9/25)
Sept. 1 filed 500,000 shares of common stock (par 10c). **Price**—$3.50 per share. **Underwriter**—First International Securities Co., Inc. **Proceeds**—To explore and acquire claims and concessions for uranium ore bodies.

American Motorists Insurance Co., Chicago
June 28 filed 100,000 shares of capital stock (par $5) being offered to stockholders of record July 25 at rate of one new share for each three held; rights will expire on Sept. 25. **Price**—At par. **Proceeds**—For general corporate purposes. **Business**—Casualty insurance. Statement effective July 26.

Arcturus Electronics, Inc. (9/22)
Sept. 12 (letter of notification) 50,000 shares of 6% convertible preferred stock (par $5) and 100,000 shares of class A stock (par one cent) in units of one preferred and two class A shares. **Price**—$5.20 per unit. **Underwriter**—Gearhart, Kinnard & Otis, Inc., New York, N. Y. **Proceeds**—For expansion program, to repay advances and for working capital.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applitd to (a) redemption on Aug. 1, 1950, at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 shares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

• Associated Telephone Co., Ltd., Santa Monica, Calif. (10/17)
Sept. 14 filed $6,000,000 of first mortgage bonds, series F, due Nov. 1, 1979. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. (jointly);; White, Weld & Co., Kidder, Peabody & Co. and Shuman-Agnew & Co. (jointly); Equitable Securities Corp. and Harris, Hall & Co. (Inc.) (jointly). **Proceeds**—To repay bank loans and for new construction. **Bids**—Expected to be opened on Oct. 17.

Big West Oil & Gas Co., Dallas, Tex.
Sept 5 filed $1,760,000 of 5% sinking fund debentures due 1965 (convertible into common stock on basis of 200 shares for each $1,000 of debentures). **Price**—To be filed by amendment. **Underwriter**—H. M. Byllesby & Co., Inc., Chicago, Ill. **Proceeds** — For drilling and development expenses and for working capital.

Blair Holdings Corp.
Aug. 8 (letter of notification) 15,000 shares of capital stock. **Price**—At market (approximately $2.75 per share). **Underwriter**—First California Corp., San Francisco, Cal. **Proceeds**—To Virgil D. Dardi, President, the selling stockholder.

• Botany Mills, Inc.
Sept. 15 (letter of notification) 300 shares of common stock (par $1). **Price**—At market (estimated at $9.50 per share). **Underwriter**—Goodbody & Co. and John F. White & Co., New York, to handle sale. **Proceeds**—To selling stockholders.

California Water Service Co.
Sept. 7 filed 80,000 shares of cumulative convertible preferred stock, series F (par $25). **Underwriters**—To be supplied by amendment—probably Dean Witter & Co.; Blyth & Co., Inc. **Proceeds** — To restore treasury funds used to finance construction and purchase of capital assets and to repay short term bank loans.

Chase Candy Co., St. Louis, Mo.
Aug. 28 filed 147,861 shares of common stock (par $1) to be offered first to common stockholders other than F. S. Yantis & Co., Inc., on the basis of one share for each two shares held. Unsubscribed shares to be publicly offered. **Price**—To be filed by amendment. **Underwriter**—F. S. Yantis & Co., Inc., Chicago, Ill., who had in June, 1949, purchased 200,000 shares at $2.50 per share. **Proceeds**—To selling stockholders. Expected this week.

City Stores Co.
July 17 filed 149,317 shares of common stock (par $5) offered in exchange for common stock (par $10) of Oppenheim, Collins & Co., Inc., and for the 4½% convertible preferred stock (par $50) and common stock (par $1) of Franklin Simon & Co., Inc., at the following ratios: 1½ shares for each Oppenheim, Collins common share; two shares for each Franklin Simon preferred share and one share for each two common shares of Franklin Simon. Offer expires on Oct. 16. **Dealer-Manager**—W. E. Hutton & Co., New York. Statement effective Aug. 16.

Columbian Enameling & Stamping Co.
Aug. 3 (letter of notification) 2,385 shares of common stock. **Price**—$25 per share. **Underwriter**—Cohu & Co., New York. **Proceeds**—To selling stockholders.

Consumers Power Co., Jackson, Mich.
June 23 filed 499,903 shares of common stock (no par) to be offered present holders at the rate of one new share for each 10 held, with an oversubscription privilege. **Underwriter**—To be named in an amendment, along with offering price. Five months ago an offering of 454,457 shares of common stock to common stockholders was underwritten by a group headed by Morgan Stanley & Co. **Price**—Expected to be not less than $33 per share. **Proceeds** — For construction. **Offering** — Temporarily postponed.

Continental Refrigeration Corp., N. Y.
July 28 (letter of notification) $250,000 of 6% 5-year income notes dated June 1, 1950 in multiples of $1,000. **Price**—At 100 and interest. **Underwriter**—National Investors Service, New York. **Proceeds**—To pay expenses incurred in prosecuting infringement actions under patent and for commercialization of patent. **Office**—50 Broadway, New York, N. Y.

• Continental Sulphur & Phosphate Corp., Dallas Texas
Sept. 11 (letter of notifictaion) $200,000 of 4% one-year promissory notes (to be convertible into common stock at rate of one share of common stock for each $1 face amount of notes). **Price**—$1 per unit. **Underwriter**—None. **Proceeds**—To purchase mining claims in Wyoming. **Office**—Tower Petroleum Bldg., Dallas, Tex.

Dayton Power & Light Co.
Sept. 13 filed 50,000 shares of common stock (par $7) to be sold to employees. **Price**—To be set each six-month period by subtracting 15% from the average price for the preceding 12 months. **Underwriter**—None. **Proceeds**—For general funds and used, in part, for construction program.

Delaware Gazette Co., Delaware, O.
Sept. 8 (letter of notification) $140,000 of 5% first mortgage bonds due 1962. **Price**—At 101½. **Underwriter**—The Ohio Company, Columbus, Ohio. **Proceeds**—For construction of newspaper building.

Delaware Power & Light Co. (9/26)
Aug. 29 filed $12,000,000 of first mortgage and collateral trust bonds due Sept. 1, 1980. **Underwriter**—To be determinated by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); First Boston Corp.; Union Securities Corp.; Lehman Brothers; Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly); W. C. Langeley & Co. **Proceeds**—For construction program of company and its two subsidiaries. **Bids**—Will be received up to 11.30 a.m. (EDT) on Sept. 26 at company's office, 600 Market St., Wilmington, Del. Statement effective Sept. 18.

Detroit Hardware Manufacturing Co.
Aug. 4 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—C. G. McDonald & Co., Detroit. **Proceeds**—To expand facilities and for working capital. **Office**—1320 Mt. Elliott Avenue, Detroit, Mich.

Diana Stores Corp., New York (9/25-29)
Sept. 6 filed 100,000 shares of common stock (par 50 cents). **Price**—To be filed by amendment. **Underwriter**—Van Alstyne Noel Corp., New York. **Proceeds**—To selling stockholders.

• Doman Helicopters, Inc. (10/2)
Sept. 18 (letter of notification) 11,320 shares of capital stock to be issued upon exercise of warrants, series A to F, inclusive. **Price**—$1.50 to $2.25 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—545 Fifth Avenue, New York 17, N. Y.

• Eagle-Picher Co., Cincinnati, Ohio
Sept. 12 (letter of notification) 10,924 shares of common stock (par $10), to be offered to 24 key employees. **Price**—At going market value, about $20 per share. **Underwriter**—None. **Proceeds**—For corporate funds. **Office**—American Building, Cincinnati 1, O.

El Paso Natural Gas Co. (9/21)
Aug. 31 filed 230,000 shares of common stock (par $3) offered for subscription by common stockholders of record Sept. 19 at the rate of one share for each 10 shares held with an oversubscription privilege; rights will expire on Oct. 4. **Price**—$21.37½ per share. **Underwriter**—White, Weld & Co. **Proceeds**—To retire either a part of the outstanding 2½% bank notes maturing in 1951 and 1952 or a portion of the 3½% convertible debentures due 1963. Statement effective Sept. 20.

Equipment Finance Corp., Chicago, Ill.
Aug. 7 filed 10,000 shares of 4% cumulative preferred stock, to be offered to officers and employees of this corporation and of Curtis Candy Co., parent. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To acquire equipment and real estate for its parent. Statement effective Sept. 13.

• Family Finance Corp., Wilmington, Del.
Sept. 19 filed 200,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and G. H. Walker & Co., of New York. **Proceeds**—For corporate purposes.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. **Price**—To be filed by amendment, along with dividend rate. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Offering postponed.

Federal Television Corp., N. Y. (9/25)
Sept. 7 (letter of notification) 600,000 shares of common stock (par one cent). **Price**—50 cents per share. **Underwriter**—John F. McBride, New York. **Proceeds**—For expansion and working capital. **Office**—139 Duane Street, New York, N. Y.

Florida Power Corp. (10/2)
Sept. 1 filed 40,000 shares of cumulative preferred stock (par $100). **Underwriter** — To be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers; Union Securities Corp. **Proceeds**—To repay bank loans and for construction program. **Bids**—Opening of bids tentatively scheduled for noon (EDT) Oct. 2.

• Gardiner Building Corp., Gardiner, Me.
Sept. 15 (letter of notification) $45,000 of 4% sinking fund third mortgage bonds due Nov. 1, 1971 to be sold in denominations of $500, $100 and $50. **Underwriter**—None. **Proceeds**—For acquisition of land and construction of shoe manufacturing building. **Office** — Water Street, Gardiner, Me.

• General Minerals, Inc., Las Vegas, Nev.
Sept. 11 (letter of notification) 2,500,000 shares of capital stock. **Price**—At par (10 cents per share). **Underwriters**—Aloys A. Dietmann, Jr., of Los Angeles, Calif., and Richard L. Neville, James H. McCarthy and James S. Shea, all of Las Vegas. **Proceeds**—To develop mineral properties. **Office**—711 North F St., Las Vegas, Nev.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25¢). **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Temporarily postponed. Amendment may be filed.

General Shoe Corp., Nashville, Tenn.
June 30 filed a maximum of 32,885 shares of common stock (par $1) to be offered on a share-for-share basis in exchange for outstanding preferred stock of W. L. Douglas Shoe Co. No underwriter. Statement effective July 25.

Gosselin Stores Co., Inc., Oklahoma City, Okla.
Aug. 15 (letter of notification) 27,000 shares of class A common stock (par $1) and 220,000 shares of class B common stock (par $1). **Price**—$1.10 per share for both issues. **Underwriter**—R. J. Edwards, Inc., Oklahoma City. **Proceeds**—To expand chain stores.

Granville Mines Corp., Ltd., British Columbia, Canada
Feb. 16 filed 100,000 shares of common non-assessable stock (par 50c). **Price**—35c per share. **Underwriter**—None. **Proceeds**—To buy mining machinery and for working capital. Statement effective May 10.

Graybar Electric Co., Inc., New York
Aug. 23 filed 72,000 shares of common stock, to be offered for subscription by employees. **Price**—At par ($20 per share). **Underwriter**—None. **Proceeds**—For working capital. Statement effective Sept. 18.

Greenwich Gas Co., Greenwich, Conn.
Sept. 1 (letter of notification) 8,000 shares of $1.50 preferred stock (no par) and 9,777 shares of common stock (no par), to be offered first to stockholders. **Price**—Of preferred, $25 per share, and common $10 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loan and for working capital.

● **Hancock Oil Co. of California**
Sept. 12 (letter of notification) 1,542 shares of class A common stock to be issued at rate of six shares to each employee on the payroll on Aug. 31, 1950, for services rendered.

Holeproof Hosiery Co. (9/27)
Sept. 7 filed 115,263 shares of common stock (par $5). **Price**—To be filed by amendment. **Underwriter**—A. G. Becker & Co. Inc., Chicago, Ill. **Proceeds**—To a group of 28 selling stockholders.

● **Home Telephone & Telegraph Co. of Virginia**
Sept. 14 (letter of notification) 57,600 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To pay bank loans and for new construction. **Office**—Emporia, Va.

Hooper Telephone Co., Hooper, Neb.
Aug. 18 (letter of notification) $30,000 of 3¾% bonds due 1970. **Price**—In excess of 102%. **Underwriter**—Wachob Bender Corp., Omaha, Neb. **Proceeds**—To retire temporary loans.

● **Hub Loan Co., Jersey City, N. J. (9/27)**
Sept. 18 (letter of notification) 100,000 shares of 18 cents cumulative convertible preferred stock (par $2). **Price**—$3 per share. **Underwriter**—Dansker Brothers & Co., Inc., New York City. **Proceeds**—For working capital.

● **International Uranium Corp., New York**
Sept. 11 (letter fo notification) $300,000 of convertible ore warrants and 600,000 shares of common stock (par one cent), the latter to be reserved for conversion of warrants at rate of two shares for each $1 of warrants. **Price**—Of warrants, $1 per unit. **Underwriter**—Lawrence Frederick Gardner, Merrick, L. I., N. Y. **Proceeds**—To buy mining properties and develop mines. **Office**—11 West 42nd St., New York, N. Y.

James Manufacturing Co., Fort Atkinson, Wis.
Sept. 6 (letter of notification) 15,973 shares of common stock (par $5) to be offered first to common stockholders on the basis of one share for each 10 shares held. **Price**—$18.75 per share. **Underwriters**—Loewi & Co., Shearson, Hammill & Co. and Bell & Farrell, Inc. **Proceeds**—For working capital.

Kaye-Halbert Corp., Culver City, Calif.
July 28 filed 100,000 shares of class A common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—For working capital.

Key West Propane Gas Corp. (9/21)
Sept. 1 (letter of notification) $125,000 of series A bonds. **Price**—At par ($1,000 each). **Underwriter**—Bioren & Co., Philadelphia, Pa. **Proceeds**—To purchase outstanding bonds and notes of Key West Gas Co. and stock of Island City Gas Co. **Offering**—Expected this week.

Lancaster Processes, Inc., N. Y. City
Sept. 7 (letter of notification) 100,000 shares of 6% cumulative (if earned) and convertible preferred stock (par $2.50) to be offered to common stockholders of record Sept. 6, with rights expiring Oct. 15. **Price**—$2.50 per share (payable as to 64,321 shares at rate of one common share [par $2] and 50 cents in cash for each preferred share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—620 Fifth Avenue, New York 20, N. Y.

Langendorf United Bakeries, Inc.
Sept. 1 filed 50,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—First California Co. **Proceeds**—To selling stockholder.

Lees (James) & Sons Co.
Sept. 11 (letter of notification) 4,100 shares of common stock. **Price**—At market (estimated at $24 per share). **Underwriter**—To be sold through Wood, Struthers & Co., New York. **Proceeds**—To selling stockholder. No public offering is planned.

Leigh Foods, Inc. (N. Y.)
June 30 (letter of notification) 300,000 shares of capital stock (par 10 cents). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For working capital and general corporate purposes. **Office**—630 Fifth Avenue, New York 20, New York.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100) **Proceeds**—To be used to redeem, at $110 per shart plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

NEW ISSUE CALENDAR

September 21, 1950

El Paso Natural Gas Co.	Common
Key West Propane Gas Corp.	Bonds

September 22, 1950

Arcturus Electronics, Inc.	Pfd. & Common
Safeway Stores, Inc.	Pfd. & Common

September 25, 1950

American-Canadian Uranium Co., Ltd.	Common
Diana Stores Corp.	Common
Federal Television Corp.	Common
North American Acceptance Corp.	Preferred
Regal Molding Co., Inc.	Preferred

September 26, 1950

Delaware Power & Light Co. 11:30 a.m. (EST)	Bonds
Winn & Lovett Grocery Co.	Common

September 27, 1950

Holeproof Hosiery Co.	Common
Hub Loan Co.	Preferred

September 28, 1950

Republic Natural Gas Co. 11 a.m. (EST)	Common

October 2, 1950

Doman Helicopters, Inc.	Common
Florida Power Corp. noon (EST)	Preferred
Pacific Power & Light Co.	Common

October 3, 1950

Sierra Pacific Power Co. 11 a.m. (EST)	Debentures
Sierra Pacific Power Co.	Common

October 4, 1950

Vanadium Corp. of America	Debentures

October 9, 1950

Utah Power & Light Co. noon (EST)	Bonds

October 11, 1950

Ohio Edison Co.	Common

October 17, 1950

Associated Telephone Co., Ltd.	Bonds
New Bedford Gas & Edison Light Co. 11:30 a.m. (EST)	Notes

October 24, 1950

Alabama Power Co.	Preferred

OFFERINGS TEMPORARILY POSTPONED

Consumers Power Co.	Common
Fedders-Quigan Corp.	Common
General Radiant Heater Co., Inc.	Common
Middlesex Water Co.	Common
Rochester Telephone Corp.	Common
Southern Co.	Common
United States Plywood Corp.	Preferred

Loven Chemical of California, Newhall, Calif.
May 31 (letter of notification) 282,250 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Floyd A. Allen & Co., Inc., Los Angeles, Calif. **Proceeds**—To buy land, build a plant and equip it to produce so-called "impact" plastics. **Office**—244 S. Pine St., Newhall, Calif.

Mercast Corp., New York City
Sept. 5 (letter of notification) 8,995 shares of common stock (no par) to be offered to stockholders of record Sept. 11, 1950 at rate of one share for each 4⅓ shares held; rights expire Sept. 26. **Price**—$10 per share. **Underwriter**—None, but unsubscribed shares to be purchased by Lansing Foundation, Inc., 65 Broadway, New York. **Proceeds**—For working capital and general corporate purposes. **Office**—295 Madison Avenue, New York 17, New York.

● **Merritt-Chapman & Scott Corp.**
Sept. 18 (letter of notification) 2,500 shares of common stock. **Price**—At market (about $30.50 per share). **Underwriter**—A. M. Kidder & Co., New York, will handle sale. **Proceeds**—To two selling stockholders.

Metropolitan Brick, Inc., Canton, Ohio
Aug. 29 (letter of notification) 50,820 shares of common stock to be offered to common stockholders of record Sept. 25 at rate of one share for each five shares held; rights to expire Oct. 21. **Price**—At par ($4 per share). **Underwriter**—None. **Proceeds**—To pay promissory notes and for plant improvement. **Office**—Renkert Bldg., Canton, O.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries—Arkansas Power & Light Co., Louisiana Power & Light Co and Mississippi Power & Light Co. **Underwriter**—Equitable Securities Corp will serve as "dealer-manager." (See also listings of Arkansas, Louisiana and Mississippi companies elsewhere in these columns.)

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

Miller (Walter R.) Co., Inc.
March 6 (letter of notification) 1,000 shares of 6% cumulative preferred stock at par ($100 per share). **Underwriter**—George D. B. Bonbright & Co., Binghamton, N. Y. **Proceeds**—To assist in acquisition of 1216 shares of company's common stock.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). **Proceeds**—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $4.90 dividend; and Blyth & Co., Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

Modern Supply Co., Inc., Pittsburgh, Pa.
Sept. 6 (letter of notification) 1,500 shares of 5% cumulative preferred stock (par $100) and 15,000 shares of common voting stock (no par value—declared value $1) in units of one preferred and ten common shares. **Price**—$110 per unit. **Underwriter**—None. **Purpose**—For general corporate purposes. **Office**—837 W. North Avenue, Pittsburgh 12, Pa.

Monarch Radio & Tlevision Corp.
Sept. 8 (letter of notification) 600,000 shares of common stock (par 5 cents). **Price**—50 cents per share. **Underwriter**—George J. Martin Co., New York. **Purpose**—For expansion and working capital. **Office**—2430 Atlantic Avenue, Brooklyn 7, N. Y.

● **Multnomah Plywood Corp., Portland, Ore.**
Sept. 18 filed 160 shares of common stock. **Price**—At par ($2,500 per share). **Underwriter**—None. **Proceeds**—For costs involved in completion and expansion of plant and for working capital.

● **New Bedford Gas & Edison Light Co. (10/17)**
Sept. 14 filed $3,750,000 of 25-year notes, series B, due Oct. 1, 1975. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr and F. S. Moseley & Co. (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co., Inc.; First Boston Corp.; Whiting, Weeks & Stubbs. **Proceeds**—To repay bank loans. **Bids**—Expected to be received up to 11:30 a.m. (EST) on Oct. 17.

● **New Bedford Gas & Edison Light Co.**
Sept. 14 filed 10,631 shares of common stock (par $25) to be offered to common stockholders of record June 14, 1950 on basis of one share for each 25 shares then held. New England Gas & Electric Association (owner of 97.37% of the outstanding stock) proposes to purchase any shares not subscribed for by others. **Price**—$67.50 per share. **Proceeds**—To finance property additions.

New Orleans Public Service Inc.
Aug. 24 (letter of notification) 7,754 shares of common stock (no par) offered to stockholders (other than Middle South Utilities, Inc., parent) of record Sept. 1, 1950, at rate of 0.168 share for each share held; rights expire Sept. 25. **Price** — $25 per share. **Underwriter** — None. **Proceeds**—To finance plant additions. **Office**—317 Baronne Street, New Orleans 9, La.

Norlina Oil Development Co., Washington, D. C.
March 28 filed 600 shares of capital stock (no par.) To offer only sufficient shares to raise $1,000,000 at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases. Statement effective May 22.

● **North American Acceptance Corp. (9/25)**
Sept. 15 (letter of notification) 16,000 shares of 60-cent cumul. conv. preferred stock (par $5). **Price**—$10 per share. **Underwriter**—Tyson & Co., Philadelphia, Pa. **Proceeds**—To increase notes receivable and for working capital.

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

● **Ohio Edison Co., Akron, Ohio (10/11)**
Sept. 15 filed 396,571 additional shares of common stock (par $8) to be offered to common stockholders of record

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Oct. 11, 1950 at rate of one share for each 10 shares held, with an oversubscription privilege; rights to expire on Oct. 30, 1950. **Underwriters**—To be determined by competitive bidding for purchase of unsubscribed shares, plus such number—not in excess of 38,657—of additional shares, if any, to stabilize market. Probable bidders: Morgan Stanley & Co. and White, Weld & Co. (jointly); First Boston Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Glore, Forgan & Co. **Proceeds**—For construction program and to increase investment in common stock of Pennsylvania Power Co., a subsidiary. **Bids**—To be received on or about Oct. 11.

Ohio Oil & Gas Co.

May 5 (letter of notification) 1,100 shares of common stock now held in treasury. **Price**—50 cents per share **Underwriter**—None. To be offered through Preston, Watt and Schoyer. **Proceeds**—Toward repayment of bank loans.

● **Olympic Radio & Television, Inc.**

Sept. 14 (letter of notification) 1,900 shares of common stock (par $1). **Price**—At market based on New York Curb Exchange quotations ($10.62½ and $10.87½ per share at Sept. 20). **Proceeds**—To four selling stockholders. **Underwriter**—None. **Office**—34-01 38th Ave., Long Island City 1, N. Y.

Orchards Telephone Co., Orchards, Wash.

March 16 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To modernize plant.

Pacific Power & Light Co. (10/2)

Aug. 30 filed 1,750,000 shares of common stock (no par), representing all of the outstanding shares of the company to be sold by a group of 16 stockholders headed by A. C. Allyn & Co., Inc. and Bear, Stearns & Co. **Underwriters**—Lehman Brothers, Union Securities Corp. and Dean Witter & Co.

Perlite Mines Co., Denver, Colo.

Aug. 10 (letter of notification) $150,000 of 5½% debenture certificates due 1955 (in denominations of $500 each) and 30,000 shares of common stock (no par). **Price**—For certificates, $400 each; for stock, $1 per share. **Underwriter**—Robert D. Bowers & Co., Denver. **Proceeds**—For working capital.

Prudential Fire Insurance Co.

Aug. 30 (letter of notification) 50,000 shares of common stock (par $4) offered first to present stockholders on a two-for-one basis, with an oversubscription privilege; rights expiring Oct. 13. **Price**—$6 per share. **Underwriter**—None. **Proceeds**—To increase capital to become multiple line company. **Office**—Braniff Bldg., Oklahoma City, Okla.

Quaker City Fire & Marine Insurance Co.

Aug. 2 (letter of notification) 10,000 shares of capital stock (par $20) to be offered on a one-for-four basis to stockholders of record Oct. 20, 1950, with the rights expiring Dec. 4, 1950. **Price**—$25 per share. **Underwriter** — Unsubscribed shares to be offered publicly through Burton, Cluett and Dana, 120 Broadway, New York, N. Y. **Proceeds**—For working capital. **Office**—226 Walnut Street, Philadelphia 6, Pa.

● **Regal Molding Co., Inc. (9/25)**

Sept. 15 (letter of notification) 59,000 shares of 6% cumulative convertible prefered stock and 59,000 shares of common stock (par 10 cents); Latter issue will be reserved for conversion of preferred stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—For new equipment, acquisition of patents and working capital. **Office**—65 East Second Street, Mineola, L. I., N. Y.

Rochester (N. Y.) Telephone Corp.

June 29 filed 125,000 shares of common stock (par $10) to be offered to present stockholders at rate of one new share for each four held. **Price**—To be filed by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For general corporate purposes, including construction and repayment of a loan. Offering postponed.

Rocky Mountain Textile Mills, Inc.

July 11 (letter of notification) $150,000 of 5% convertible sinking fund debentures, due 1960, and 15,000 shares of common stock (par $10), to be sold separately or in units of one $1,000 debenture and 100 shares of stock. **Price**—Separately, at par, and in units, at $2,000 each. **Underwriters**—Boettcher & Co. and Peters, Writer & Christensen, Inc., Denver, Col. **Proceeds**—For new machinery, equipment and working capital. May be placed semi-privately.

Royal Television & Electronics, Inc., Washington, D. C.

June 22 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—None. **Proceeds**—To buy television set components. **Office**—714 Fifth St., N. W., Washington, D. C.

Safeway Stores, Inc. (9/22)

Sept. 12 (by amendment) filed 110,000 shares of 4% preferred stock (par $100) and 257,064 shares of common stock (par $5), the latter issue to be offered for subscription by common stockholders of record Sept. 21 at the rate of one share for each 10 shares held; rights to expire Oct. 5. **Price**—To be filed by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Together with other funds, will be used to repay $20,000,000 term bank loans.

● **Saul (B. F.) Co., Washington, D. C.**

Sept. 14 (letter of notification) $70,000 of 5% promissory notes. **Price**—At principal amount. **Underwriter**—None. **Proceeds**—To Henry J. Connor, Inc. **Office**—925 15th St., N.W., Washington, D. C.

Seneca Oil Co., Oklahoma City, Okla.

April 27 (letter of notification) 225,782 shares of class A stock (par 50¢). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital.

Sierra Pacific Power Co. (10/3)

Sept. 1 filed $2,500,000 of debentures due Oct. 1, 1975 and 24,716 shares of common stock (par $15), the latter issue to be offered pro rato to preferred and common stockholders of record Oct. 3 on basis of one share for each six preferred shares and one share for each 12 common shares held rights to expire on Oct. 19. **Underwriters**—For debentures to be determined by competitive bidding (bids to be received by company before 11 a.m. (EST) on Oct. 3); for common stock, to be supplied by amendment, together with subscription price. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Kidder Peabody & Co. Probable underwriter for stock: Stone & Webster Securities Corp. **Proceeds**—To pay bank loans and to finance new construction.

Simmel-Meservey Television Productions, Inc.

June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif.

Smith-Dieterich Corp., New York City

Aug. 31 (letter of notification) 75,292 shares of common stock (par $2.50) to be offered to common stockholders of record Sept. 8 on a share-for-share basis; rights expire on Sept. 28. **Price**—At par. **Underwriter**—None. **Proceeds**—For purpose of producing motion picture films for television, and for purchase of new equipment. **Office**—50 Church Street, New York 7, N. Y.

Southern Co.

July 28 filed 818,415 shares of common stock (par $5) offered in exchange for 545,610 shares of common stock of Birmingham Electric Co. on a 1½-for-1 basis. No underwriter. Offer to expire on Sept. 22. Statement effective Aug. 29.

Southern Co., Atlanta, Ga.

June 23 filed 1,000,000 shares of common stock (par $5). **Underwriters**—To be determined by competitive bidding. Probable bidders are: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co., Inc. and Bear, Stearns & Co. (jointly); Lehman Brothers; Union Securities Corp. and Equitable Securities Corp. (jointly); Harriman Ripley & Co., Inc. Temporarily postponed. **Bank Loans**—Common stock financing proposal was amended in August to provide for $12,000,000 of bank borrowings to provide funds necessary to acquire $12,000,000 common stock of Alabama Power Co. and Georgia Power Co. ($6,000,000 in each), the bank loans to mature in one year. As soon as practicable and feasible, sale of the 1,000,000 common shares will be made, and the proceeds used to retire the bank loans.

Sylvan Products, Inc., Centralia, Wash.

Aug. 17 (letter of notification) 6,000 shares of 6% cumulative preferred stock. **Price**—At par ($25 per share). **Underwriter** — None. **Proceeds** — To establish plywood mill. **Address**—Box 449, Centralia, Wash.

Tennessee Gas Transmission Co., Houston, Tex.

Aug. 28 filed 100,000 shares of common stock (par $5) to be issued in exchange for 80,000 shares of common stock of Sterling Oil & Gas Co., and for 10-year subscription warrants to purchase 133,333 shares of Sterling common stock. The rate of exchange is to be supplied by amendment. Offer to expire Oct. 6, unless extended. **Exchange Agent**—The National Bank of Commerce of Houston, Tex.

Tire Maintenance Corp., New York City

Sept. 7 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—Walt Clyde, 144 East 24th Street, New York 10, N. Y. **Purpose**—For organizational expense and working capital. **Address**—c/o Guy M. Bagar, 730 Riverside Drive, New York 31, N. Y.

Union Investment Co. of Detroit (Mich.)

Sept. 11 filed 55,865 shares of common stock (par $4), to be offered to common stockholders at the rate of one share for each three shares held, with oversubscription privilege. **Price**—To be filed by amendment. **Underwriter**—McDonald-Moore Co., Detroit. **Proceeds**—For general corporate purposes.

United States Plywood Corp.

June 19 filed 60,000 shares of series B cumulative convertible preferred stock (par $100). **Underwriter**—Eastman, Dillon & Co., New York. **Price**—To be filed by amendment along with dividend rate. **Proceeds**—To increase working capital and for other corporate purposes including the erection of a new plant at Anderson, Calif Temporarily postponed.

Utah Power & Light Co. (10/9)

Aug. 2 filed $8,000,000 first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Smith, Barney & Co. (jointly); First Boston Corp. and Blyth & Co., Inc.; Harriman Ripley & Co., Inc.; Kidder, Peabody & Co.; White, Weld & Co.; Salomon Bros. & Hutzler. **Proceeds**—For construction program. **Bids**—Expected to be received up to noon (EST) on Oct. 9. Statement effective Aug. 30.

Utah Power & Light Co.

Aug. 2 filed 166,604 shares of common stock (no par) offered to common stockholders of record Sept. 12 on basis of one new share for each eight shares held; rights will expire on Oct. 4. **Underwriters**—Union Securities Corp. and Smith, Barney & Co. (jointly). **Price**—$24.25 per share. **Proceeds**—For construction program. Statement effective Aug. 30.

● **Vanadium Corp. of America (10/4)**

Sept. 14 filed $5,000,000 of convertible debentures, dated Oct. 1, 1950. **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—For plant modernization.

● **Vulcan Silver-Lead Corp., Wallace, Idaho**

Sept. 8 (letter of notification) an estimated 90,000 shares of common stock (par $1). **Price**—For the first 50,000 shares, 90 cents each; thereafter price will be determined by market. **Underwriter**—J. A. Hogle & Co., Spokane, Wash. **Proceeds**—To Callahan Zinc-Lead Co.

Vieh Co., Columbus, Ohio

May 8 (letter of notification) 19,500 shares of common stock at $10 per share. **Underwriter**—The Ohio Co. **Proceeds**—To buy the assets of Brodhead-Garrett Co. and for working capital.

Winn & Lovett Grocery Co. (9/26)

Sept. 6 filed 210,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—For general corporate purposes, including improvement and expansion of its stores and other facilities and prepayment of a portion of outstanding funded debt.

Prospective Offerings

Alabama Power Co. (10/24)

Sept. 1 it was announced company has filed with the SEC an application covering an issue of $10,000,000 preferred stock (par $100). **Underwriter**—To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly); First Boston Corp. **Proceeds**—For construction program. **Bids**—Expected to be opened Oct. 24. Registration expected Sept. 22.

● **California Electric Power Co.**

Sept. 13 it was announced company plans issuance later this year $4,000,000 of bonds and $2,000,000 of debentures, the proceeds from the sale of which will be used to repay, in part $8,000,000 temporarily borrowed from Bank of America to finance construction of new 60,000 kwh. steam generating plant. Probable bidders: Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co.

California Electric Power Co.

Aug. 31 company filed application with FPC for authority to issue 40,000 shares of 5% cumulative preferred stock (par $50). Exemption is sought from competitive bidding requirements. It is planned to place this issue with a small group of insurance companies through Merrill Lynch, Pierce, Fenner & Beane. Proceeds are to be used to finance expansion program.

Cleveland Electric Illuminating Co.

Aug. 1 it was reported that company this fall may issue and sell an issue of preferred stock, of which 495,011 shares of no par value are presently available, stockholders on April 25 having increased the authorized amount to 750,000 shares from 500,000 shares. The proceeds are to be used for construction program. Probable underwriter: Dillon, Read & Co. Inc. if negotiated sale.

Consolidated Edison Co. of New York, Inc.

May 15. Ralph H. Tapscott, Chairman, said the company will require approximately $90,000,000 of "new money" through the sale of securities. No permanent financing is contemplated before this fall, however, and current expenditures are being financed by short-term loans, of which $16,000,000 are now outstanding. It is anticipated that $257,000,000 will be needed for the construction program over the next four years. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp.

Consolidated Lobster Co., Inc.

Aug. 11 it was stated that company plans to offer additional capital stock (no par) for subscription by stockholders. At April 30, 1950 there were outstanding 34,393 shares out of 47,000 shares authorized.

● **Dostal Foundry & Machine Co.**

Sept. 12 it was reported company plans to sell in mid-October 84,000 shares of common stock. **Underwriters**—Smith, Hague & Co.; George McDowell & Co.; and R. H. Johnson & Co.

Eastern Utilities Associates

May 23 it was announced that under a plan filed with the SEC a new company will be formed to acquire the

assets of Eastern, and of the Brockton Edison Co., Fall River Electric Light Co. and Montaup Electric Co. and will issue and sell $22,000,000 of first mortgage and collateral trust bonds and $8,500,000 of preferred stock.

● **El Paso Electric Co.**
Sept. 19 company reported to be planning issue and sale of $4,500,000 first mortgage bonds between now and the close of the year.

El Paso Electric Co., El Paso, Tex.
July 19 it was announced company plans to refund $3,500,000 bank loans (notes approved Aug. 22 by FPC) with permanent financing prior to March 31, 1951, their maturity date. The last issue of debentures was placed privately last September with the John Hancock Mutual Life Insurance Co. Previous financing underwritten by White, Weld & Co.

Equitable Gas Co.
April 8 company said to be planning the sale this year of $2,000,000 of bonds, with another $2,000,000 in 1951 or 1952. The proceeds are to be used for its construction program.

Florida Power & Light Co.
June 9 stockholders approved creation of 50,000 shares of $4.50 cumulative preferred stock (par $100). These shares are soon expected to be offered to finance part of construction program which is expected to require approximately $25,000,000 new capital through 1952.

Georgia Natural Gas Co., Albany, Ga.
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

Georgia Power Co.
Sept. 6 it was reported Alabama P. S. Commission has authorized the company to issue a new series of preferred stock, the proceeds of which are to be used to finance the erection of a steam generating station at Gorgas, Ala.

● **Haile Mines, Inc.**
Sept. 13 stockholders authorized the issue of 100,000 additional shares of common stock (par 25 cents) to stockholders of record Sept. 22 on the basis of one share for each 14 shares held. **Price**—$1.50 per share. **Proceeds**—To develop manganese properties in New Mexico and Arizona.

● **Hallicrafters Co., Chicago.**
Sept. 14 it was reported that early registration is expected of 300,000 shares of common stock, of which 150,000 shares will be for the account of the company and 150,000 shares for the account of selling stockholders. **Underwriter**—Kebbon, McCormick & Co., Chicago.

Houston Lighting & Power Co.
April 14, S. R. Bertron, President, estimated construction expenditures for 1950 between $19,000,000 and $20,000,000. This estimate may be raised to accommodate increased power demands on the system. If this is the case, more financing will be necessary, he added. This may be done through additional common or preferred stock financing.

Hussman Refrigerator Co.
Oct. 6 stockholders will vote on creating $1,500,000 of preferred stock. Proceeds will be used to redeem 15,699 outstanding shares of $2.25 cumulative preferred stock, no par value, and for general corporate purposes. Traditional underwriter—W. E. Hutton & Co. May be placed privately with an insurance firm.

Iowa Southern Utilities Co.
April 26 company said to plan sale of first mortgage bonds to finance part of its $3,200,000 construction program for 1950. Probable underwriter: The First Boston Corp.

Johansen Brothers Shoe Co.
Oct. 25 stockholders will vote on proposal to issue and sell $350,000 of 4% sinking fund debentures due 1960. Proceeds to retire outstanding 3½% debentures and for other corporate purposes. Traditional underwriter: Stifel, Nicolaus & Co.

Kaiser Steel Corp., Fontana, Calif.
Sept. 6 it was reported that company was planning a $100,000,000 financing program, which may include $60,000,000 of bonds (which probably will be placed privately with an insurance company) and $40,000,000 of equity financing which is expected to be in units of preferred and common stock, a registration statement for which is expected to be filed with the SEC before Oct. 6. **Proceeds**—$92,000,000 will be used to pay off an RFC loan, and the remaining $8,000,000 added to working capital. **Underwriter**—The First Boston Corp. is reported to be heading the underwriting group.

● **Kansas Gas & Electric Co.**
Sept. 19 it was reported that company is expected to issue and sell 45,000 shares of new preferred stock sometime next month.

La Crosse Telephone Co.
June 6, company announced that it has advised the Wisconsin P. S. Commission that it expects to sell $1,000,000 of long-term bonds and not less than $600,000 additional common stock. Proceeds will be used to repay $1,300,000 bank loans, due in September, 1951, and the remaining $300,000 will go to Central Telephone Co., parent, to repay temporary advances for construction. Probable underwriter: Paine, Webber Jackson & Curtis.

Long Island Lighting Co.
Aug. 29 company asked SEC authority to issue $20,000,000 first mortgage bonds, series H, due Sept. 1, 1980, and requested exemption from competitive bidding, planning to place the issue privately. Proceeds would be used to repay bank loans and to reimburse treasury for construction expenditures.

Louisiana Power & Light Co.
Sept. 12 it was said that the company is expected to be in the market for about $8,000,000 of bonds around mid-November. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); Blyth & Co., Inc.; Harriman, Ripley & Co., Inc.; Shields & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; W. C. Langley & Co., The First Boston Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—For construction program.

Louisville Gas & Electric Co.
Aug. 29, SEC was notified that Standard Gas & Electric Co. plans to sell its holdings of 137,857 shares of common stock (no par) of Louisville Gas & Electric Co., and use the proceeds to retire $2,250,000 of bank notes. Probable bidders: Lehman Brothers and Blyth & Co., Inc. (jointly); First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Merrill Lynch, Pearse, Fenner & Beane, White, Weld & Co. and Union Securities Corp. (jointly). Expected before end of 1950.

Market Basket, Los Angeles, Calif.
May 25 company announced it plans sale of 4,452 shares of authorized but unissued, preferred stock, series C (par $15) and an additional 30,000 shares of preferred stock, (par $15) to be authorized. Further details not available.

Michigan Consolidated Gas Co.
Aug. 7 it was announced company contemplates permanent financing will be consummated before maturity (Feb. 20, 1951) of proposed $25,000,000 bank loans which will include, during 1950, $20,000,000 of first mortgage bonds and $6,000,000 of common stock, and the sale, in 1951, of about $10,000,000 of preferred stock. **Underwriters for Bonds**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—To pay off short-term bank loans and for new construction costs. The additional common stock will be sold to American Natural Gas Co., parent. Expected this Fall.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock. Previous debt financing was placed privately.

Milwaukee Gas Light Co.
Aug. 22 company applied to SEC for authority to issue $3,500,000 promissory notes to banks to mature April 27, 1951, the proceeds to be used for construction purposes. The permanent financing program is expected to be consummated prior to October, 1950 and will involve the refinancing of $13,334,000 first mortgage 4½% bonds due 1967, $2,000,000 of 7% preferred stock and bank loans (about $8,500,000) through the issuance of $27,000,000 of bonds, and $6,000,000 of preferred stock (to be offered publicly and $3,000,000 of common stock to common stockholders. (American Natural Gas Co. now owns 97.7% of presently outstanding common stock.) Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co., and Lehman Brothers (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co.; Smith, Barney & Co., Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly). Registration expected shortly.

Montana Power Co.
Aug. 22 it was reported company plans to sell in 1950 and 1951 approximately $22,000,000 of new securities, with $10,000,000 of debentures expected in October. **Underwriters**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; First Boston Corp.; Lehman Brothers. **Proceeds**—For expansion and extension of gas and electric properties.

Mountain Fuel Supply Co. of Utah
June 6 company announced plans to create a new firm to take over its exploration and development of natural gas and oil operations. It will be financed, in part, through public sale by the new unit of 1,000,000 shares of capital stock (par $8). Financing plan submitted by First Boston Corp. Expected this Fall.

Mountain States Power Co.
Aug. 23 it was reported that company is considering issuance of additional preferred stock (par $50), of which there are authorized and unissued 77,007 shares. **Underwriter**—May be Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To retire $1,250,000 bank loans maturing Oct. 3, 1950, and for expansion program.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue in late summer or early fall $10,000,000 bonds and 50,000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc.; (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred:—W. C. Langley & Co.

Niagara Mohawk Power Co.
Sept. 7 it was reported company plans issuance of $41,000,000 new bonds some time in November. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; First Boston Corp. Proceeds would be used as follows: $25,000,000 to pay construction costs and $16,000,000 to refund Niagara Falls Power Co. 3½% bonds (latter amount is dependent upon approval by FPC of merger of Niagara Falls Power Co. with Niagara Mohawk Power Co.)

North American Car Corp.
Aug. 15 it was reported that the company is to issue and sell publicly not exceeding 40,000 shares of common stock (par $10). Probable underwriter: Glore, Forgan & Co., New York. The proceeds are to be used for car rebuilding program.

Northern States Power Co. (Minn.)
July 29 it was reported that the company will be in the market probably this fall with an offering of $17,500,000 new preferred stock. Probable bidders: Lehman Brothers and Riter & Co. (jointly); Smith, Barney & Co. Proceeds would be used for new construction.

Public Service Electric & Gas Co.
April 17 stockholders approved the issuance of $90,000,000 new bonds for the purpose of refunding $50,000,000 3⅛% bonds due 1965; $10,000,000 3¼% bonds due 1968; $15,000,000 3% bonds due 1970 and $15,000,000 bonds due 1972. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.

Republic Natural Gas Co. (9/28)
Sept. 9 it was announced that bids will be received up to 11 a.m. (EDT) on Sept. 28 at the Office of Alien Property, 120 Broadway, N. Y. City, for the purchase from it, as an entirety, of 3,000 shares of common stock. This represents about 2% of the 1,450,693 common shares outstanding. The stock will be sold to American citizens only.

Roosevelt Mills, Inc., Manchester, Conn.
July 20 company was reported to be negotiating with a group of underwriters for a public stock offering of about $150,000 of additional capital stock at $1 or $2 per share. There are presently outstanding 1,381 shares of stock. which are closely held.

San Diego Gas & Electric Co.
July 31 it was reported that the company's original plan to issue between $8,000,000 and $10,000,000 of bonds late in September or early October may be changed to preferred stock, depending upon market conditions. If negotiated, Blyth & Co., Inc. may handle financing. If competitive, probable bidders are: Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Salomon Bros. & Hutzler. Proceeds would go toward construction program.

● **Smith, Kline & French Laboratories.**
Sept. 13 stockholders increased authorized common stock from 1,000,000 shares (no par) to 2,000,000 shares (par $1). Following split up of present outstanding 807,295 shares on a two-for-one basis, there will remain unissued 385,410 shares of the new stock. The directors were empowered to issue all or part of the latter shares at any time.

South Carolina Electric & Gas Co.
Aug. 17, S. C. McMeekin, President, said the company expects to issue and sell later this year $3,000,000 of new bonds (in addition to private placement of $3,000,000 of 4.60% cumulative preferred stock, par $50), the proceeds to finance construction program. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Lehman Brothers (jointly); Kidder, Peabody & Co.; Union Securities Corp.

Southern California Petroleum Corp.
Sept. 1, Tyler F. Woodward, President, announced that stockholders should be given the opportunity of subscribing for additional capital stock, the proceeds to be used to develop the company's Cuyama Valley holdings. The offering would be underwritten.

South Georgia Natural Gas Co., Atlanta, Ga.
Aug. 23 company applied with FPC an amended application for authority to build a 526.9 miles pipe line in Georgia and Florida which, it is estimated, will cost between $10,500,000 and $12,080,000 to be financed by sale of first mortgage bonds and the issuance of junior securities. Probable underwriter: Courts & Co.

Southern Natural Gas Co.
July 31 it was reported proposed financing on a permanent basis has been increased from $10,000,000 to $24,000,000 first mortgage bonds, although company may decide to take this in two pieces, viz: $10,000,000 to $12,000,000 initially and the balance later on. On June 21 SEC approved temporary bank borrowings of up to $20,000,000 to mature July 1, 1951, the proceeds to be used for construction program which is estimated to cost $32,520,000 for 1950-1951. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); First Boston Corp.

Southwestern Public Service Co.
Aug. 1 it was announced by Herbert L. Nichols, Chair-

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man, that the company expects to raise between $17,500,000 and $18,000,000 through the sale of securities during the fiscal year beginning Sept. 1, 1950. This may include bonds to be placed privately and the balance to be offered publicly as preferred and common stock with Dillon, Read & Co. Inc. underwriting. The proceeds are to pay for construction costs.

• Texas Illinois Natural Gas Pipeline Co.

Sept. 15 company applied to the FPC for authority to construct approximately 72 miles of new line in Texas at an estimated cost of $11,581,800. It is planned to issue first mortgage bonds for 75% of the required capital and to raise the remaining 25% through the sale of common stock. Probable underwriters—White, Weld & Co. and Glore, Forgan & Co.

United Gas Pipe Line Co.

July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

Warner-Hudnut, Inc.

July 20 change in company's name from William R. Warner & Co., Inc. was approved, but no action was taken on proposed recapitalization plan, due to market conditions. It is planned to file a registration with the SEC covering the sale of approximately 325,000 shares of the proposed new common stock (par $1) to the public through a nation-wide group of underwriters headed by F. Eberstadt & Co., Inc.

Western Pacific RR.

July 17 it was reported company plans issuance and sale of $22,000,000 mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To retire first mortgage 4% bonds and convertible income 4½% bonds due 2014, and over $5,000,000 "new money." Expected about middle of November.

• Weymouth Light & Power Co.

Sept. 18 company applied to SEC for authority to issue and sell 16,298 shares of capital stock (par $25) to its stockholders. New England Electric System, the parent, proposes to acquire 16,227½ shares and any shares not subscribed for by minority stockholders. **Price**—$35 per share. **Proceeds**—To repay bank loans and advances and for construction.

Wilcox-Gay-Majestic Corp.

July 14 it was announced that in connection with acquisition by Wilcox-Gay Corp. of Garod Radio Corp. and Majestic Radio & Television, Inc., Wilcox-Gay-Majestic Corp., the new company plans public offering of 500,000 shares of common stock (par $1). **Underwriter**—Gearhart Kinnard & Otis. **Proceeds**—For working capital. Expected in October.

Continued from page 7

Responsibilities of Bank's Investment Officer

never thereafter risen much nor for long.

At the beginning of this century loans in our banking system were about three times larger than investments. Since then, however, a large part of this nation's corporate financing has been done through the issuance of securities. The loan account has been shrinking while the investment account has been growing. One of the milestones in this apparently inexorable long-term trend was in 1934 when for the first time total investments exceeded total loans in our national banking system. By 1945 investments were over four times total loans and today they are almost twice as large as the loan figure. Further, it should be pointed out that the tremendous deficit financing since 1941 has created bank deposits through bank buying of U. S. Treasury obligations and that this inflation is frozen into the monetary structure since most of the increase in our investments is obligations of our government—the only debtor that I know of who cannot be liquidated and who also fixes the rate on the money he borrows from us.

Two purposes are served by a demonstration of this character. One, that the outlook for great expansion in bank loans is not encouraging and therefore that the commercial banks of this nation will continue for years to be large investors as well as lenders of money. Two, some fears which may be held by others regarding the future of money rates and measurably lower bond prices may largely be dispelled.

In order to use to the best advantage a sound investment education, I contend that a man should isolate himself to a certain degree from day to day market quotations — particularly U. S. Governments. Not that I mean that we should not know our markets but we should not pay too much attention to day to day fluctuations and let them influence our broader scale thinking. A sound state of mind is far more important than speculating from day to day on the state of the nation. To my way of thinking, the prime requisite in attaining a sound state of mind is to remember that banking is still a business and that profits are the dominant motive. By profit making I, of course, do not mean purchasing investments to sell them at a profit but the best profits are obtained by producing the highest continuous income possible within the structure of one's own bank. The emphasis in the mind should be upon the securing of income and not on the making of capital gains. Such a basic investment philosophy is a sounder one than that based on the relatively unpredictable turn of high grade bond prices.

Oft-quoted are parts of the Sermon on the Mount. There is a phrase from this great teaching which applies to us:

"Therefore whosoever heareth these sayings of mine, and doeth them, I will liken him unto a wise man, which built his house upon a rock; and the rain descended, and the floods came, and the winds blew, and beat upon that house; and it fell not: for it was founded upon a rock."

This is more than a hint—it is a directive on the subject of high quality. Quality that will stand up under tomorrow's conditions.

This is probably the most difficult and most creative responsibility of all because it is under today's conditions and today's trends that we must select the securities which will weather tomorrow's storms. Further, we have an ideal, the attainment of which is still more difficult. It is to purchase today an investment which will improve in quality as the years pass and thus improve the quality of our security portfolio.

Vergil in the Aeneid indicates that the maintenance of principles is not as easy at it looks. *Facilis descensus Averno*, a banker's very free translation of which would be "the road to hell is pretty easy." This applies quite neatly to an investment portfolio. In the perfectly legitimate pursuit of the maximum safe and continuous rate of return, the temptation to depart from quality standards is insidious and powerful. I can hardly overemphasize the fact that the devil is always out to get you and in the old days of 20 years ago there were bond salesmen who acted like his agent as their comprehension of high grade security was at times woeful. Time has changed this, however, and my experience today is that seldom do the representatives of bond houses delude themselves, and us, regarding bond quality.

Departure from high quality standards seldom pays—or, at least it has not paid in the past. Maybe we are in one of those periods where for many years to come there will be no storms in our economic structure. It appears to me dangerous and fallacious to assume that this will be the case, especially when the average bank investment portfolio cannot run the risk of the book losses that can result through the holding of "credit bonds" despite the fact that such bonds usually meet interest payments regularly and the principal when due.

In passing, it may be trite but it is sometimes important to remind ourselves that direct obligations of the U. S. Government have no equal, still less any superior, in point of quality. Neither do they have any equal from the viewpoint of marketability. These facts should be accorded due weight in comparing other obligations with U. S. Treasuries. This becomes even more pointed when we consider how during the past ten or twelve years the yield spreads between the best security known and any other have narrowed down perceptibly.

One of the responsibilities of an investment officer, particularly in a medium to large commercial bank, is to realize that he is in a sense hostage to the loaning department, for it is within his investment portfolio that the ebb and flow of loans is reflected. The outlook for loans in his institution or a change in lending policy can change his investment position. Close cooperation with others in one's bank regarding loan trends and deposit movement is necessary.

Do not allow prejudice to influence your choice, or more usually rejection, of an investment. Beware of old outlooks, outworn observations disparaging a field of enterprise which may have grown to maturity while many still think of it as wearing knee breeches. One of several examples which could be cited is the field of railroad reorganization securities. Be among the first to discern fundamental and probably lasting improvement in a situation for it is thus that the bargain incomewise is obtained. When all are aware of improvement in a security, it takes its exact position yieldwise in the market place. An example of potential credit improvement is our friendly neighbor to the north. Many believe that Canada's fiscal policies, national resources and other latent powers will continue to improve her national credit.

By the same token shun the security which has outlived its halo. When deterioration in a security is only the first smell of liquor—during business hours—on its breath, long before its financial hiccoughs trumpet its downfall, an investment man must take care not to delude himself that the deterioration is a temporary matter, a trend which will shortly be righted. Adopt instead the skeptical attitude that the malaise may be a symptom of a degenerative disease.

The investment officer's position in the commercial banking field today is most important and responsible. The latest figures on all national banks show that in the past seven years the percentage of total gross earnings received from the investment portfolio has averaged about 46%. This percentage is probably higher in medium and large banks and this figure does not tell the whole story. First, bond portfolio earnings viewed as a gross figure give no reflection to partially or wholly tax exempt income and in an institution where there is fair proportion of partially or wholly tax exempt securities, the earnings from the investment portfolio would be still higher if you reduced figures back to a corporate taxable equivalent basis. Second, the production of the investment portfolio derives from a relatively small-staffed, low-cost operation as contrasted with the higher costs incidental, in many banks, to production of earnings from loans and discounts.

During the same seven-year period the percentage of total gross income received from the loan account averaged only 37% of our total national banking system earnings.

Because that of which I will now speak is not alone the responsibility of an investment officer, I question whether it has a rightful place in this talk of mine. I believe it has as it is part of a large responsibility of business.

In the Middle Ages, professional men and also artisans formed themselves into guilds, which were a peculiar combination of trade association, labor union, cartel and secret society. They cloaked, in a mantle of profound and sometimes frightening secrecy, the facts of their arts and professions. Odd as it may seem to us now, they achieved a degree of popular respect out of proportion to their actual worth and contribution to society.

If that attitude was successful then, it is obviously so no longer. In this "century of the common man," what the masses do not understand, they distrust, and what they distrust they do not merely ignore; they tend to curb or even destroy.

Hence, it is the responsibility of the investment officer, even as it is that of everyone else in the bank, to convey to the public some awareness of the value of a bank to its community, how it functions as a good citizen among citizens. If the people are to operate a strong, productive economy, they must comprehend at least the essential facts of its functioning. The local bank is the representative of business most familiar to most people. Bank officers can do and should do much to give to the people of their community a more correct picture of business, including banking, than they have long received from non-business sources.

For many years now all business has been under fire from various sources and success has been stigmatized as anti-social. Our profession has not escaped such attacks and no doubt you have now and again been placed on the defensive as regards the social value and propriety of your calling. Possibly on a blue Monday you have even entertained some doubts and reservations yourself on this score. Such feelings, in my opinion, are groundless and lest we be too close to the trees to see the forest, let us consider together a few of the broader aspects of our profession. Viewing them, I think that we can hold our heads high and perhaps have a better-organized rebuttal for the occasional misguided individual who regards us as unproductive, and virtually economic parasites.

First, I will use the analogy of mechanical friction and electrical resistance, both of which rob humanity of useful work. Our society and our economy need frictionless work and output. How do investment men provide it in their functioning? The entire usefulness of a price and money economy rests upon the ready exchange of goods for money at minimum cost. The owner of funds can afford to invest only if he can readily convert much of his investment into cash, quickly and at low cost. We investment men provide that close continuity of markets upon which our economy depends. Our share of the economy operates with an extraordinary minimum of frictional losses or resistance. One need only contrast the close spreads, low commissions and rapidity of transactions in the securities markets with those prevailing, for example, in real estate, to see what an efficient mechanism the investors and the security markets provide for the necessary flow of capital into and out of business, from which the whole of society profits.

A second social utility flows from our investment activities and our guidance of this flow of investment funds. By and large, it is in the social and economic interest that money should be used efficiently. In legitimate business and outside of the field of rackets, the public tends to reward with good earnings the enterprise which gives the public the best values in goods or services. In turn, the investor tends to reward the successful enterprise with ready access to investment funds at low rates. Thus, by your day-to-day and sometimes humdrum work, you are helping to channel the flow of investment funds to the points where they will aid and encourage the businesses which the public favors, and by the votes of its dollars, wishes to succeed. Conversely, you are restricting the credit demands of those enterprises which are marginal, which are inadequately managed, and which the public is not patronizing. At least, you are properly handicapping such businesses, by requiring them to pay higher rates for their capital.

It is thus apparent that by this process of investment selection you and I and all investment men are contributing to the shaping of our dynamic economy. To the extent that we do our job well, with insight into the direction of sound progress, with understanding of economic and technological trends, we are among the good architects of the future. It is, of course, regrettable that laws and regulations so limit our range of choice of investments that we are often forced to concentrate our commitments in types of activities and types of securities already well supplied, to the exclusion of others deserving of our support and more needful of our dollars.

I am proud and you should also be proud, that over the years the professional standards of our calling are rising and becoming better recognized.

Storing Household Goods

By ROGER W. BABSON

Mr. Babson, predicting continued depreciation of the dollar, war or no war, holds it may be advisable, in interest of our grandchildren, to start a collection of good jewelry, linens, rust-proof cutlery, tools or other non-perishable but universally useful things which can easily be stored. Urges 5% of individual savings be applied to this purpose.

This week I am writing about investments for your grandchildren and great-grandchildren. Unless the Korean affair or some similar one develops into World War III, we oldsters will probably see no radical money changes but our children and grandchildren will probably see real troubles. Every reader has seen our own dollar drop in purchasing power to less than 60 cents. It will continue to drop, war or no war. I personally have seen the German mark go from 25 cents U. S. dollars, to zero; the Chinese dollar from 50 cents U. S. dollars, to nearly zero; and the French franc from 20 cents U. S. dollars, to the present value of one quarter of one cent. The same is true of most of the currencies of the world, including South America.

Roger W. Babson

If World War III should come, the value of our dollar could rapidly decline to a very low figure as did our currency in the 1860's. For a time then many people would refuse to accept paper money for tangible goods. This same thing could happen again. The time to prepare for such an event is now. No company will insure your house after it starts to burn.

What Will Be Used for Money?

As long as any "hard money" such as silver coin is available, it will be accepted. In France, after World War II, the farmers preferred silver teaspoons for money. People, of course, must use something for money. It must be easy to carry about and easily hidden and something which other people want. Sterling silver was always acceptable.

As gold was unobtainable and silver was gradually hoarded, the most preferred form of money used in Europe during the last part of World War II was genuine jewels. Even the farmer would accept this in payment for food because he could pass it on to others for what he had to buy. Such gems, used for money, must not be too expensive and the supply must be limited. Furthermore, they must be of a nature where the genuine stones can readily be recognized from the synthetic.

Value of Marine Jewelry

Marine jewels—the products of the ocean—best qualify under the above requirements. They are not too expensive, yet their supply is limited and they cannot be manufactured artificially without detection. I have in mind such gems as amber, coral, and jet. In fact, there will continue to be fewer of all these marine gems. There will never be any more diamonds made by nature, and as yet the manufacture of diamonds for jewelry is not feasible. In any case, the average diamond would be too expensive for bartering with farmers and tradesmen.

Hence, the wholesale prices of such marine gems will slowly increase due both to the greater scarcity and the increased labor cost of finding, cutting and polishing these gems. Pearls—both natural and cultured—can also be classified as marine jewelry. In fact, even the cheap synthetic pearls are made from beads covered with a solution of fish scales. But only the expensive natural pearls have a limited supply.

Begin a Collection Now of Gems, Linens, Etc.

I believe that those who read this column will, in their lifetime, always be able to use U. S. paper currency even though it continues to decline in value. On the other hand, I think nearly every reader will agree that, although we will win World War III if it comes—yet our cities will suffer such destruction and our national debt become so huge — our present paper dollars may be of little use to our great grandchildren or perhaps even to our grandchildren.

Therefore, in their interests should we not start a collection of good jewelry, linens, rust-proof cutlery or tools and other non-perishable **but universally useful things which can easily be stored?** Is it fair to leave these grandchildren **only** stocks, bonds, and paper dollars which the savings banks and life insurance companies will pay out to them? Hence, my suggestion is that readers consider putting 5% of their savings each year into a collection of such small permanently valuable articles, storing them for their grandchildren and great-grandchildren to use as money in some later temporary emergency. Such articles should be new—not secondhand—and should be kept locked up in "Grandma's Treasure Chest" for perhaps 50 years or more.

Our Reporter's Report

The investment markets appear to be gripped by a new case of "jitters" much to the discomfort of those who are engaged in the task of distributing new securities.

For a time, a fortnight ago, it looked as though, with the Treasury's big mid-September operations out of the way, a period of at least relative stability would develop.

The seasoned market did work its way back over most of the ground lost on the earlier decline, and the Government list behaved better. However, there appears to be a distinct feeling of caution, if not outright nervousness, pervading the market place at the moment.

Observers cannot put their fingers definitely on a cause but, since there has been considerable fresh "'backing-up" of new issues in the municipal market, the consensus is that the situation is based on uncertainty over the basic market.

Some people feel that a disposition to anticipate a markup in member banks reserve requirements by the Federal Reserve Board may be at the bottom of it. Bankers, however, pointing to the net results of recent Treasury operations, do not see such action as necessary, at least at this time.

Nevertheless new issues continue to lean a bit to the "sticky" side and, moreover, there is evidence of steady offerings of sizeable blocks of industrial and public utility issues of good quality for institutional account. Evidence is seen of some switching to mortgages.

Yields and Buyers

Some feel there is a renewed tendency to price new issues a bit too fully thus chipping the yield below the point at which buyers would be interested. The result is that institutions are inclined to back away.

Meantime pressure in the seasoned market has been tending toward yields that are more attractive than was the case a month ago. This is notably true in Double A utility and industrial issues, it was pointed out.

High-grade utilities, it is noted, are selling currently at levels to yield an average of 2.68% to 2.72%, which is about ten basis points better than the comparable 2.58% to 2.62% of a month or so ago.

Recent Issues Lag

Most of the recently floated new corporate offerings have proved to be sluggish in moving out to ultimate buyers, according to those who follow the market closely from day to day.

They report a fair amount of Virginia Electric Power Co.'s new offering is still in the hands of bankers and dealers. In the case of Tennessee Gas Transmission Co.'s new issue, it is calculated that about half the total has been sold with the balance still on the shelves.

It is still possible to pick up lots of Plantation Pipe Line's $40,000,000 of 20-year debentures brought out a few weeks ago, and Duquesne Light Co.'s new preferred stock is reported about 60% sold with the balance still to go.

Face Same Hard Road

Indications were that Cleveland Electric Illuminating Co.'s $25,000,000 of new 35-year first mortgage bonds, due up for public offering today would require a bit of selling effort.

Priced at 100.787 to yield 2.715% this issue carrying a 2.75% coupon appeared destined for only a luke-warm reception on the part of big investors.

Much the same held true in the case of the block of 260,000 shares of Central Maine Power Co. common stock, sold to bankers earlier in the week by New England Public Service Co. With both the investment and equity markets a bit on the heavy side, however, the drag on new issues here was not too surprising.

New Issues On Way

Other potential borrowers were going ahead with plans to enter the money market in the relatively near future provided nothing happens to add to current woes.

Groups were reported forming to bid for an expected offering of 45,000 shares of new preferred stock by Kansas Gas & Electric Co. probably next month.

Delaware Power & Light has called for bids to be opened next Tuesday on $12,000,000 of new 30-year first mortgage bonds, and Alabama Power Co. has set Oct. 24, tentatively as the date for sale of $10,000,000 of new preferred stock.

Meanwhile El Paso Electric is setting plans for a $4,500,000 issue of first mortgage bonds between now and the close of the year.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Political forecasters for the most part seem to be concerned primarily with keeping their doggone mouths shut, and that spectacular leap which the U. S. and allied forces made above the previous battle lines in Korea offers a brilliant example of why they are not talking much in the height of the 1950 campaign.

They are not talking because nobody knows what is going to happen next, the effect of which would make more monkeys out of political forecasters than the Truman upset in 1948.

Prior to the landing above the Korean battle lines it was no secret that on net balance, things were looking pretty rosy for the Republicans, although you couldn't get any prominent GOP member to grind out anything more than the routine confident prediction and if then, reluctantly.

The feeling was that the country was fed up with the Administration's "bungling," with the uncertainties, and so on, and that the voters would take it out on the Democratic members in office. Even to the most conservative observers it looked at least fair for capture of the Senate and better for the capture of the House by the Republicans. Democrats in private were predicting victory, but with notable lack of conviction in their voices and with a surprising vagueness about what seats they would win.

It is just such a thing as that leap frog military action in Korea which scares the daylights out of the really responsible forecasters. If the offensives in the more northern zones are well-conceived on all counts, the results might just bring about a spectacular victory. The victory would appear all the more brilliant because it no doubt took real guts to risk holding back the now-revealed large forces from a front which was being held precariously, in order to build for the leap frog offensive. This is one of what the military people call big "calculated risks" which, if they succeed, make national heroes and sometimes Presidents. When they fail, they make bums out of Admirals and Generals.

Unless the new landings are poorly conceived, the possibilities range from at least upsetting the entire Red Korean offensive to at best trapping the enemy armies and annihilating them.

If any such good things happen, without other things intervening, then the election of a strong Democratic Congress would seem to be almost in the bag.

On the other hand, if the landings north of the previous Korean lines cause the Kremlin to deal off their Chinese Communist deck the whole endeavor, no matter how brilliantly conceived, might result in an even greater disaster to the US-UN forces than if these additional men had not been committed. Then, of course, the election results would be inclined toward exactly the opposite.

So it will still be impossible to forecast the trend of the Congressional elections for some time.

If there were not the uncertainties of the war, there was a pretty general expectation in this town that Helen Douglas, rampant "Fair Dealer," would get beaten for the California Senate while Jimmy Roosevelt bit the dust in the governorship race in that state.

About the best the Democrats could look for in Connecticut was to hold Biren McMahon in the Senate, and that was doubtful, and lose the "liberal" William Benton.

All sides now say one of the toughest fights of the GOP is in Colorado where Eugene Millikin is in danger for reelection to the Senate. Millikin rates as one of the ablest conservatives and is a scholar on finance hardly less able than Chairman Walter George of the Finance Committee.

There is much amusement at the Rube Goldberg tactics of getting Mayor O'Dwyer out in New York to "fix up" the situation for the Democrats in that state, but the results have been anything but happy and certain politicos here think they have at least an even chance of removing Lehman from the Senate.

All in all, even a pronounced swing toward the GOP can, because of the small number of Democratic unsafe seats potentially forfeit in the election, hardly result in more than a majority of one or two, or at most three or four with a complete blizzard, totally unexpected, hitting the Democrats. In the House a trend can affect as a rule as many as up to 100 seats.

* * *

The chances seem to be preponderant that before long the Administration will make a severe cut-back in the liberality of insured and guaranteed housing finance.

There are two schools of thought on this question. One is that the President's mid-summer order "cutting back" on housing be tried out for a while longer before cutting back further. In that order the President allegedly required 5% higher down payments than were required before under FHA and VA loans, and limited values to the basis of costs as of July 31. The latter, for many technical and detailed reasons, is regarded as the more effective, long-run.

There have been revealed official signs that the building boom has passed its top. On the other hand, if these "limitations" prove not in fact to be effective, by the time it is discovered the back-log of approved housing loans may be so great as to tend to counter further restrictions or make a genuine cut-back difficult.

So it is probable that buyers of new homes will be required to put up stiffer down payments. It is said that the prospective order may raise them to as much as an average of 20% down.

The way it will work out, however, is that the higher the cost of the new house absolutely in dollars, the higher the down payment. Thus, buyers of upper middle income class houses may have to put up as much as 25%, even more, while "low cost" or \$10,000 to \$12,000 houses, may call for down payments of somewhere in the range of 10% to 15%, versus 5% or less now.

Incidentally, the Housing and Home Finance Agency is in fact top dog in housing finance under the President's orders issued in pursuance of the Defense Production Act. HHFA is top dog because it is delegated power to control "government credit," or FHA, GI, Fanny May, and certain other institutions. The greatest volume of housing construction is financed with government guarantees or insurance.

The Federal Reserve Board, on the other hand, regulates, in consultation with HHFA, the terms of home mortgage loans neither insured nor guaranteed, nor expected to be sold to the government.

Notwithstanding that, and despite remarks which earlier had indicated the contrary, HHFA does not intend to impose a higher down payment in the financing of a home through private than through government channels. The discrimination will not be against private financing institutions but against the homes of the moderately well-to-do.

One of the real arguments which will develop shortly is between the veterans' lobbies and HHFA. The professional spokesmen of the veterans do not want controls on GI loans put in HHFA, which they regard as loving the FHA too much.

* * *

It is only a matter of emphasis, but several keen observers here thought that the President in his "controls speech" laid an uncomfortable emphasis upon expanding plant capacity. The President talked first about expanding plant capacity, and then went on to say that expanded plant capacity would not forestall shortages from developing.

So many will have their fingers crossed for fear that the "economic expanders" have sold the White House on the idea of using the war as a basis for developing vastly for its own sake the expansion in capacity under government auspices, this being the fondest dream of the left-wing group in the Council of Economic Advisers.

* * *

Strange as it may seem, it would appear that certain Administration sources are inspiring the suggestion that the current year's deficits will be "at least as high" as \$3 billion. This is predicated on total revenues from old and new tax laws of \$45 billion, and expenditures in the neighborhood of \$48 billion. On the Hill, some in closest touch with the Administration are using this figure.

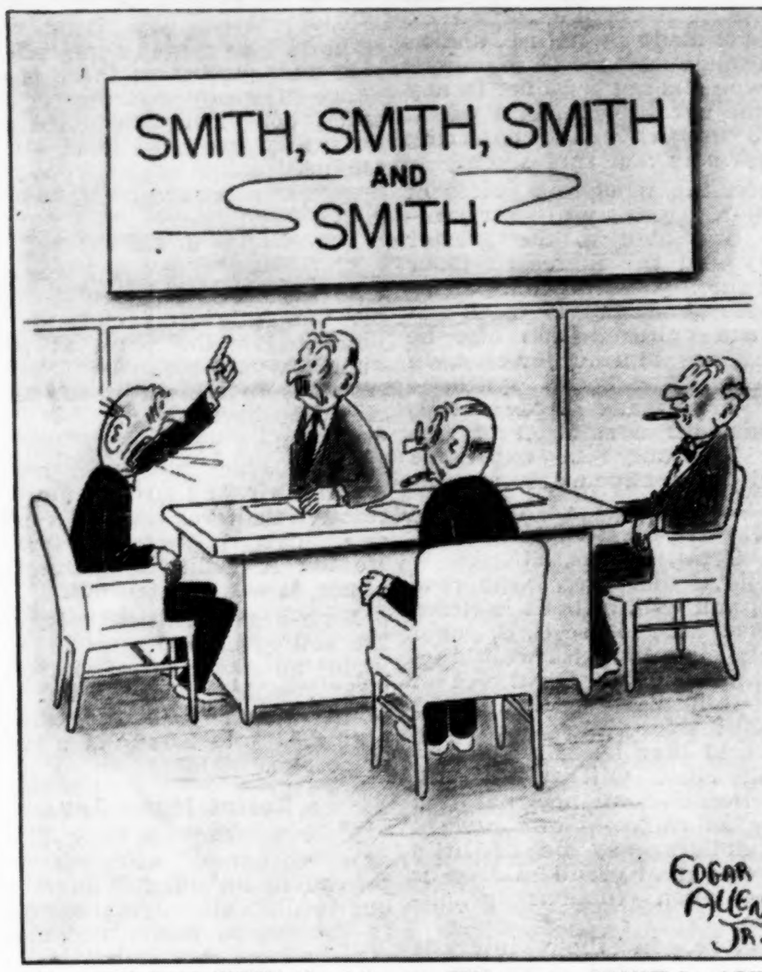
This is a remarkable deficit forecast, because it involves expenditures of only \$8 billion above last year, and less than \$6 billion above the forecast for the year of last January.

The cost of paying, feeding, and transporting the larger forces being recruited would probably alone just about account for the rise in \$8 billion above last year's expenditure total. That would mean no increase in Marshall Aid achieved this year, no increase in foreign military aid, and such an infinitesimal boost in military procurement as to make materials and other controls look ridiculous.

More seasoned observers on the Hill, however, look for expenditures, even with procurement slow in getting started, to run between \$52 billion and \$55 billion, and the deficit not less than \$8 billion.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"—and just HOW do I know MY name ISN'T last?"

Lyon Carter

Lyon Carter of Lexington, Mass., a partner of the investment banking firm of Estabrook & Co. since Jan. 1, 1929, died Sept. 20 after a brief illness at the Cape Cod Hospital, Hyannis, Mass.

Mr. Carter was prominent in Boston and New York financial circles. He was a member of the Board of Governors of the New York Stock Exchange and a former Governor of the Boston Stock Exchange and the Association of Stock Exchange Firms. He was also a former member of the Executive Committee of the Investment Bankers Association and a director of the Lexington Trust Company, Central Vermont Railway, Inc., and Boston Mutual Life Insurance Company.

With Robert D. Bowers

(Special to THE FINANCIAL CHRONICLE)

SCOTTSBLUFF, Neb.—John P. Cunningham has become affiliated with Robert D. Bowers & Co. of Denver.

Atkinson-Jones Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Ore. — Clyde H. Woodcock is now associated with Atkinson-Jones & Co., U. S. Bank Bldg.

With Blyth & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Ore.—Dexter R. Forbes is with Blyth & Co., Inc., Pacific Bldg.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

TRAVERSE CITY, Mich.—Victor W. Wiskochil is with Waddell & Reed, Inc. of Kansas City.